Investopedia's Top 300 Forex Terms

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Absolute Rate

The fixed portion of an interest-rate swap, expressed as a percentage rather than as a premium or a discount to a reference rate.

The absolute rate is a combination of the reference rate and the premium or discounted fixed percentage. For example, if the LIBOR is 3% and the fixed interest portion of the swap is at a 7% premium, the absolute rate is 10%.

It is sometimes also referred to as an absolute swap yield.

Accumulation/Distribution

A momentum indicator that attempts to gauge supply and demand by determining whether investors are generally "accumulating" (buying) or "distributing" (selling) a certain stock by identifying divergences between stock price and volume flow. It is calculated using the following formula:

Acc/Dist =
((Close – Low) – (High – Close)) / (High – Low) * Period's volume

For example, many up days occurring with high volume in a downtrend could signal that the demand for the underlying is starting to increase. In practice, this indicator is used to find situations in which the indicator is heading in the opposite direction as the price. Once this divergence has been identified, the trader will wait to confirm the reversal and make his or her transaction decisions using other technical indicators.

ADF

In currencies, this is the abbreviation for the Andorran Franc.

Advance/Decline Index

A technical analysis tool that represents the total difference between the number of advancing and declining security prices. This index is considered one of the best indicators of market movements as a whole. Stock indexes such as the Dow Jones Industrial Average only tell us the strength of 30 stocks, whereas the advance/decline index can provide much more insight into the movements of the market.

Advance/Decline Index =
(Advances – Declines) + Prior Advance/Decline Index Value

In general, rising values of the advance/decline can be used to confirm the likelihood that an upward trend will continue. If the market is up but there are more declining issues than advancing ones, it's usually a sign

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that the market is losing its breadth and may be getting ready to change direction.
Imagine that the advance/decline index on the S&P 500 is currently at 1835. If at the end of the last trading day, 300 stocks were up (advance) and 200 were down (decline), 100 would be added to the advance/decline index value, pushing it to 1935.

When this index is plotted on a chart, it is known as the "advance/decline line".

AED
In currencies, this is the abbreviation for the U.A.E. Dirham.

AFA
In currencies, this is the abbreviation for the Afghanistan Afghani.

Alan Greenspan
The former chairman of the Board of Governors of the Federal Reserve System as well as the Federal Open Market Committee (FOMC), the Fed's principal monetary policymaking body. His tenure at the helm of the Fed lasted 18 years from 1987 until early 2006, when Ben Bernanke replaced him. He was first appointed to the post by then-president Ronald Reagan and kept at the Fed's helm by successors George H.W. Bush, Bill Clinton and President George W. Bush.

Greenspan is the first person to have been appointed to five consecutive terms as the Fed's chairman. He became known for being adept at guiding the Fed's board to consensus on policy issues and his public comments were regarded as so powerful that they could send financial markets sharply in any direction.

He was widely perceived as an inflation hawk, often criticized for focusing more on controlling prices than on achieving full employment. Greenspan also became infamous for his often technical and cautiously worded speeches, and reportedly once mocked his own speaking style during a 1988 speech in which he said, "I guess I should warn you, if I turn out to be particularly clear, you've probably misunderstood what I said."

ALL
In currencies, this is the abbreviation for the Albanian Lek.

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American Currency Quotation

A direct quotation in the foreign exchange markets whereby the value of the American dollar is stated as a per-unit measure of a foreign currency. This type of quotation shows how much U.S. currency it takes to purchase one unit of foreign currency.

For example, an American currency quote would be US$0.85 per C$1. This shows that it will take only 0.85 U.S. dollars to purchase a single unit of Canadian currency. If you wanted to purchase C$1,000, it would cost you US$850.

American Depositary Share (ADS)

A U.S. dollar-denominated equity share of a foreign-based company available for purchase on an American stock exchange. American Depositary Shares (ADSs) are issued by depository banks in the U.S. under agreement with the issuing foreign company; the entire issuance is called an American Depositary Receipt (ADR) and the individual shares are referred to as ADSs.

Depending on the level of compliance with U.S. securities regulations the foreign company wishes to follow, the company may either list its shares over-the-counter (OTC) with low reporting requirements or on a major exchange like the NYSE or Nasdaq. Listings on the latter exchanges generally require the same level of reporting as domestic companies, and also require adherence to GAAP accounting rules.

Foreign companies that choose to offer shares on U.S. exchanges gain the advantage of a wider investor base, which can also lower costs of future capital. For U.S. investors, ADSs offer the opportunity to invest in foreign companies without dealing with currency conversions and other cross-border administrative hoops.

Even though ADSs represent real claims to foreign shares (and could be converted if the investor wished to do so), there is currency risk involved in holding them. Fluctuations in the currency exchange rate between the USD and the foreign currency will affect the price of shares as well as any income payments, which must be converted into U.S. dollars.

ANG

In currencies, this is the abbreviation for the Netherlands Antilles Guilder.

AON

In currencies, this is the abbreviation for the Angolan New Kwanza.

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Arbitrage
The simultaneous purchase and sale of an asset in order to profit from a difference in the price. This usually takes place on different exchanges or marketplaces. Also known as a "riskless profit".

Here's an example of arbitrage: Say a domestic stock also trades on a foreign exchange in another country, where it hasn't adjusted for the constantly changing exchange rate. A trader purchases the stock where it is undervalued and short sells the stock where it is overvalued, thus profiting from the difference. Arbitrage is recommended for experienced investors only.

ARP
In currencies, this is the abbreviation for the Argentinean peso.

ARS
In currencies, this is the abbreviation for the Argentinean Nuevo Peso.

Asset Swap
Similar in structure to a plain vanilla swap, the key difference is the underlying of the swap contract. Rather than regular fixed and floating loan interest rates being swapped, fixed and floating investments are being exchanged.

In a plain vanilla swap, a fixed libor is swapped for a floating libor. In an asset swap, a fixed investment such as a bond with guaranteed coupon payments is being swapped for a floating investment such as an index.

At The Market
An order to buy or sell a futures contract at the best available price upon entrance into the exchange for execution.

This is identical to a market order in the securities markets. When an investor places an order at the market, he or she is willing to forgo price discrimination for speediness of entry to or exit from a futures contract.

ATS
In currencies, this is the abbreviation for the Austrian Schillings.

AUD
In currencies, this is the abbreviation for the Australian dollar.

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Aussie
Slang term that is used to refer to the Australian dollar.

Similar to how the U.S. dollar is sometimes called the greenback or the Canadian dollar is called the loonie, the Australian dollar is sometimes called the Aussie to distinguish it from all the other dollars. It is also denoted as A$ or AU$.

Authorized Forex Dealer
Any type of financial institution that has received authorization from a relevant regulatory body to act as a dealer involved with the trading of foreign currencies. Dealing with authorized forex dealers ensure that your transactions are being executed in a legal and just way.

In the United States, one regulatory body responsible for authorizing forex dealers is the National Futures Association (NFA). The NFA ensures that authorized forex dealers are subject to stringent screening upon registration and strong enforcement of regulations upon approval.

AWG
In currencies, this is the abbreviation for the Aruba Guilder.

Balance Of Payments (BOP)
A record of all transactions made between one particular country and all other countries during a specified period of time. BOP compares the dollar difference of the amount of exports and imports, including all financial exports and imports. A negative balance of payments means that more money is flowing out of the country than coming in, and vice versa.

Balance of payments may be used as an indicator of economic and political stability. For example, if a country has a consistently positive BOP, this could mean that there is significant foreign investment within that country. It may also mean that the country does not export much of its currency.

This is just another economic indicator of a country's relative value and, along with all other indicators, should be used with caution. The BOP includes the trade balance, foreign investments and investments by foreigners.

Bank For International Settlements (BIS)
An international organization fostering the cooperation of central banks and international monetary policy makers. Established in 1930, it is the oldest international financial organization, and was created

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to administer the transaction of monies according to the Treaty of Versailles. Among others, its main goals are to promote information sharing and to be a key center for economic research.

Essentially, the BIS is a central bank for central banks; it does not provide financial services to individuals or corporations. The BIS is located in Basel, Switzerland, and has representative offices in Mexico City and Hong Kong. Member banks include the Bank of Canada, the Federal Reserve Bank and the European Central Bank.

Bank Of Canada (BOC)
The central bank of Canada, that came into existence after the passing of the Bank of Canada Act in 1935, influences the country's economy and money supply.

The biggest tool at the BOC's disposal is the short-term lending rate (overnight rate) between banks. The Bank of Canada also manages government debt as well as issues new currency.

Bank Of Japan (BoJ)
Headquartered in the business district of Nihonbashi in Tokyo, the Bank of Japan is the Japanese central bank. The bank is responsible for issuing and handling currency and treasury securities, implementing monetary policy, maintaining the stability of the Japanese financial system, and providing settling and clearing services.

Like most central banks, the Bank of Japan also compiles and aggregates economic data and produces economic research and analysis.

The bank's headquarters in Nihonbashi are located on the site of a historic gold mint, which is located close to the city's Ginza, or "silver mint", district. The Bank of Japan issued its first currency notes in 1885 and, with the exception of a brief period following the Second World War, it has operated continuously ever since.

Base Currency
The first currency quoted in a currency pair on forex. It is also typically considered the domestic currency or accounting currency. For accounting purposes, a firm may use the base currency to represent all profits and losses. It is sometimes referred to as the "primary currency".

For example, if you were looking at the CAD/USD currency pair, the Canadian dollar would be the base currency and the U.S. dollar would

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be the quote currency. The price represents how much of the quote currency is needed for you to get one unit of the base currency.

BBD
In currencies, this is the abbreviation for the Barbados Dollar.

BDT
In currencies, this is the abbreviation for the Bangladesh Taka.

Ben Bernanke
The chairman of the board of governors of the U.S. Federal Reserve. Bernanke took over the helm from Alan Greenspan on February 1, 2006, ending Greenspan's 18-year leadership at the Fed. A former Fed governor, Bernanke was chairman of the U.S. President's Council of Economic Advisors prior to being nominated as Greenspan's successor in late 2005.

Born Ben Shalom Bernanke on December 13, 1953, he was the son of a pharmacist and a schoolteacher and was raised in the Southeastern United States. A high-achieving student, Bernanke completed his undergraduate degree summa cum laude at Harvard University, then went on to complete his Ph.D. at MIT in 1979. He taught economics at Stanford and then Princeton University until 2002, when he left his academic work for public service.

BGN
In currencies, this is the abbreviation for the Bulgarian Lev.

BHD
In currencies, this is the abbreviation for the Bahraini Dinar.

BIF
In currencies, this is the abbreviation for the Burundi Franc.

Big Figure
The stem, or whole dollar price, of a quote, often used in reference to foreign currencies or money markets.

For example, if a foreign currency was trading at 108.3457 and a money market security was trading at 108.6666, both would have big figures of 108. Traders will often not mention the big figure when quoting a security, assuming that other traders know this number.

In the U.S., the big figure is often referred to as the handle.

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Big Mac PPP
A survey done by *The Economist* that determines what a country's exchange rate would have to be for a Big Mac in that country to cost the same as it does in the United States. Purchase power parity (PPP) is the theory that currencies adjust according to changes in their purchasing power. With the Big Mac PPP, purchasing power is reflected by the price of a McDonald's Big Mac in a particular country. The measure gives an impression of how overvalued or undervalued a currency is.

The calculation of the Big Mac PPP-adjusted exchange rate looks at the price of a Big Mac in a given country and divides it by the price of a U.S. Big Mac. Let's say that we are looking at the Big Mac in China. If a Chinese Big Mac is 10.41 renminbi (RMB) and the U.S. price is $2.90, then - according to PPP - the exchange rate should be 3.59 RMB for US$1. However, if the RMB was actually trading in the currency market at 8.27 RMB for US$1, the Big Mac PPP would suggest that the rmb is undervalued.

Blocked Currency
Any currency that is mainly used for domestic transactions and does not freely trade on a forex market (usually due to government restrictions). Also referred to as a "nonconvertible currency".

It is very difficult (if not impossible) to convert the blocked currency into a freely traded one such as the U.S. dollar.

Blotter
A record of trades and the details of the trades made over a period of time (usually one trading day). The details of a trade will include such things as the time, price, order size and a specification of whether it was a buy or sell order. The blotter is usually created through a trading software program that records the trades made through a data feed.

The purpose of a trade blotter is to carefully document the trades so that they can be reviewed and confirmed by the trader or the brokerage firm. The blotter is used in the stock market, foreign exchange market, and the bond market and can be customized based on the needs of the user.

BMD
In currencies, this is the abbreviation for the Bermudian Dollar.

BND
In currencies, this is the abbreviation for the Brunei Dollar.

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BOB
In currencies, this is the abbreviation for the Bolivian Boliviano.

Bretton Woods Agreement
A 1944 agreement made in Bretton Woods, New Hampshire, which helped to establish a fixed exchange rate in terms of gold for major currencies. The International Monetary Fund was also established at this time.

This agreement governed currency relationships until the early 1970s, when a floating exchange rate system was adopted.
Before its breakdown, the agreement was useful in maintaining order and accomplishing common objectives among the states that created it.

BRL
In currencies, this is the abbreviation for the Brazilian Real.

BSD
In currencies, this is the abbreviation for the Bahamanian Dollar.

BTN
In currencies, this is the abbreviation for the Bhutan Ngultrum.

Bull Put Spread
A type of options strategy that is used when the investor expects a moderate rise in the price of the underlying asset. This strategy is constructed by purchasing one put option while simultaneously selling another put option with a higher strike price. The goal of this strategy is realized when the price of the underlying stays above the higher strike price, which causes the short option to expire worthless, resulting in the trader keeping the premium.

This type of strategy (writing one option and selling another with a higher strike price) is known as a credit spread because the amount received by selling the put option with a higher strike is more than enough to cover the cost of purchasing the put with the lower strike. The maximum possible profit using this strategy is equal to the difference between the amount received from the short put and the amount used to pay for the long put. The maximum loss a trader can incur when using this strategy is equal to the difference between the strike prices and the net credit received. Bull put spreads can be created with in-the-money or out-of-the-money put options, all with the same expiration date.

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Bundesbank
Refers to the central bank of Germany. This is the U.S. equivalent of the Federal Reserve.

The Bundesbank was in charge of the German deutsche mark but now that the country has adopted the euro, it is part of the European system of central banking.

BWP
In currencies, this is the abbreviation for the Botswana Pula.

BZD
In currencies, this is the abbreviation for the Belize Dollar.

Cable
In the context of the forex market, the exchange rate between the U.S. dollar and the British pound sterling. Because it is the norm in forex for most major currencies to be quoted against the U.S. dollar on a regular basis, "cable" is a commonly used term. "Cable" can also be used to refer simply to the British pound sterling.

For example, you may hear someone dealing with the forex market saying, "The cable is up today," or, "The cable has been trending lower lately." The origins of this term are attributed to the fact that in the 1800s, the dollar/pound sterling exchange rate was transmitted via transatlantic cable. Forex brokers are sometimes referred to as "cable dealers".

CAD
In currencies, this is the abbreviation for the Canadian Dollar.

Cambist
An expert trader who rapidly buys and sells currency throughout the day.

The term comes from the Latin word "cambiere" which means "to exchange".

Cash Delivery
The same-day settlement of a currency trade in the forex market. This means that delivery and settlement of the transaction occur on the same date that the currency trade is made. In order for this to occur, the forex position must be opened and closed within the same trading day. Also referred to as "same-day settlement".

As is the case with most financial markets, when you place an order in

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the forex market, the trade is executed shortly afterward, but the settlement of trades - during which the trade details are entered into the books and records of the trading parties - typically occurs at a later time. Cash delivery is exceptional, because all of this happens in the same day..

Centralized Market

A financial market structure that consists of having all orders routed to one central exchange with no other competing market. The quoted prices of the various securities listed on the exchange represent the only price that is available to investors seeking to buy or sell the specific asset.

The New York Stock Exchange is considered a centralized market because orders are routed to the exchange and are then matched with an offsetting order. On the other hand, the foreign exchange market is not deemed to be centralized because there is no one location where currencies are traded and it is possible for traders to find competing rates from various dealers from around the world.

CHF

In currencies, this is the abbreviation for the Swiss franc.

China Investment Corporation (CIC)

A government-sponsored entity of the People's Republic of China that seeks to invest in securities and commodities abroad. The CIC was initially funded with around $200 billion, which originated from the issuance of long-term treasury bonds by the People's Bank of China (PBOC). The bond proceeds were then converted into dollars through the foreign exchange market.
The CIC provides a vehicle for investing the massive trade surplus that exists in the nation. The CIC will receive regular inflows of capital to help suppress this figure.

Speculations abound as to how the CIC will impact the world financial markets. China has been a large investor in U.S. Treasuries for many years, but hopes to earn a higher return on its foreign investments by diving into stocks, bonds and commodities such as oil and gold. Critics point to general corruption in China's political and economic system and wonder what kind of regulations will exist within the CIC to prevent it from being run in a similar fashion.

One of the first announced investments of the CIC was a 10% stake in U.S.-based private equity firm Blackstone Group, a move that sparked concern on Wall Street at the prospect of Chinese influence on U.S.

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corporate operations through the stock market.

Choice Market
A market in which the spread between the bid and the ask for a given financial instrument is zero - meaning that, at any point in time, the instrument can be bought for the same price as it can be sold in the market. This type of market only occurs when there is extreme liquidity and a limited number of intermediaries.

This is a rare occurrence in the financial markets, as most financial instruments trade with a spread between the bid and the ask.
The market that most closely resembles a choice market is forex, where some currency pairs trade with a spread of only a fraction of a percent. For example, the spread between the USD and EUR is usually only 1 basis point, or 0.01%.

Clearing
The procedure by which an organization acts as an intermediary and assumes the role of a buyer and seller for transactions in order to reconcile orders between transacting parties.

Clearing is necessary for the matching of all buy and sell orders in the market. It provides smoother and more efficient markets, as parties can make transfers to the clearing corporation, rather than to each individual party with whom they have transacted.

Clearing Price
The specified monetary value assigned to a security or asset. This price is determined by the bid and ask process of buyers and sellers interested in trading the security.
In any exchange, sellers prefer to part with their assets for the highest price possible while investors interested in buying the same asset desire the lowest purchase price possible. At some point, a mutually agreeable price is reached between buyers and sellers. It is at this point that economists say the market has "cleared" and transactions take place. Thus, the clearing price of an asset is the price at which it was most recently traded.

CLP
In currencies, this is the abbreviation for the Chili Peso.

CNY
In currencies, this is the abbreviation for the China Yuan Renminbi.

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Commodity Block Currency

A currency that belongs to a country whose economy is strongly correlated with the price fluctuations of a certain commodity.

For example, a large portion of the Canadian economy is tied to the price of oil, which causes the price of this commodity to become a major driver in the value of the Canadian dollar. Other countries such as Australia or New Zealand are in a similar position due to their economic dependence on precious metals such as gold. All of these countries sees money flowing in when their respective commodities rise, causing their currencies to appreciate.

Compound Option

An option for which the underlying is another option. Therefore, there are two strike prices and two exercise dates. These are the four types of compound options:

- Call on a call
- Put on a put
- Call on a put
- Put on a call

This type of option usually exists for currency or fixed-income markets, where an uncertainty exists regarding the option's risk protection capabilities. The advantages of compound options are that they allow for large leverage and they are cheaper than straight options. However, if both options are exercised, the total premium will be more than the premium on a single option.

Constant Currencies

An exchange rate that eliminates the effects of exchange rate fluctuations and that is used when calculating financial performance numbers. Companies with major foreign operations often use constant currencies when calculating their yearly performance measures.

For example, consider a French company that sells primarily abroad and sets its prices according to U.S. dollars. If sales increase 10% in dollar terms, but the dollar fell 5% against the franc during the year, only a 5% increase in sales will be reported in the accounts, unless a constant currency is applied in the calculation. In other words, the use of constant currencies allows companies to show performance unaffected by currency fluctuations.

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COP
In currencies, this is the abbreviation for the Columbian Peso.

Country Basket
A derivative security designed to mimic the major index of an international exchange.

Country baskets were created by brokerage firms to allow investors the capability of investing in specific foreign markets without the restrictive costs. These baskets act similar to passive exchange traded funds and typically will trade on the NYSE and AMEX.

Cover On A Bounce
The covering of a short position after it has reached and bounced off a level of support. This strategy waits for the price to move to a support level, instead of selling before, to see if the level will hold (because the trader will benefit if it doesn't hold). Once the security bounces it is clear the security will have trouble moving down further so the trade covers their short position.

Levels of support act as a backstop to a further move downward in price but can sometimes fail to hold. If a security falls below a support level it will often lead to an even stronger downward move as the level is taken out. The trader waiting for a bounce is betting that the support level will not hold and they will benefit if this materializes.

Cover On Approach
The closing out of a profitable short position as the security moves toward a key level of support. As a security moves closer to a level of support the chances of it falling any further weaken because, traditionally, buying has come into the security at the support level, which keeps the price from a continued downward move and limits the continued success of the short trade.

Critical support levels often prove to provide limits for how far a secuirty can fall. By selling out before the security gets to the support level they are being conservative with their gains as support levels limit further moves downward and can often see large moves back up as the security bounces.

Crawling Peg
A system of exchange rate adjustment in which a currency with a fixed exchange rate is allowed to fluctuate within a band of rates. The par value of the stated currency is also adjusted frequently due to market factors such as inflation. This gradual shift of the currency's par value

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is done as an alternative to a sudden and significant devaluation of the currency.

For example, in the 1990s, Mexico had fixed its peso with the U.S. dollar. However, due to the significant inflation in Mexico, as compared to the U.S., it was evident that the peso would need to be severely devalued. Because a rapid devaluation would create instability, Mexico put into place a crawling peg exchange rate adjustment system, and the peso was slowly devalued toward a more appropriate exchange rate.

CRC

In currencies, this is the abbreviation for the Costa Rican Colon.

Credit Netting

A system whereby the number of credit checks on financial transactions is reduced by entering into agreements that simply net all transactions. These agreements are made between large banks and other financial institutions and place all current and future transactions into one agreement, removing the need for credit checks on each transaction.

Most financial transactions that deal with credit involve credit checks to ensure that the borrowing party can meet the obligation of the transactions. However, due to the active nature of large market participants, the constant checking and rechecking of credit is not only time consuming, but also has the potential to create missed opportunities. The process becomes more efficient for all parties involved if they enter into larger scale agreements.

Cross Currency

A pair of currencies traded in forex that does not include the U.S. dollar. One foreign currency is traded for another without having to first exchange the currencies into American dollars.

Historically, an individual who wished to exchange a sum of money into a different currency would be required to first convert that money into U.S dollars, and then convert it into the desired currency; cross currencies help individuals and traders bypass this step. The GBP/JPY cross, for example, was invented to help individuals in England and Japan who wanted to convert their money directly without having to first convert it into U.S dollars.

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Cross Rate

The currency exchange rate between two currencies, both of which are not the official currencies of the country in which the exchange rate quote is given in. This phrase is also sometimes used to refer to currency quotes which do not involve the U.S. dollar, regardless of which country the quote is provided in.

For example, if an exchange rate between the Euro and the Japanese Yen was quoted in an American newspaper, this would be considered a cross rate in this context, because neither the euro or the yen is the standard currency of the United States. However, if the exchange rate between the euro and the U.S. dollar were quoted in that same newspaper, it would not be considered a cross rate because the quote involves the U.S. official currency.

CUP

In currencies, this is the abbreviation for the Cuban Peso.

Currency

A generally accepted form of money, including coins and paper notes, which is issued by a government and circulated within an economy. Used as a medium of exchange for goods and services, currency is the basis for trade.

Generally speaking, each country has its own currency. For example, Switzerland's official currency is the Swiss franc, and Japan's official currency is the yen. An exception would be the euro, which is used as the currency for several European countries.

Investors often trade currency on the foreign exchange market, which is one of the most heavily traded markets in the world.

Currency Basket

A selected group of currencies whose weighted average is used as a measure of the value or the amount of an obligation. A currency basket functions as a benchmark for regional currency movements - its composition and weighting depends on its purpose.

A currency basket is commonly used in contracts as a way of avoiding (or minimizing) the risk of currency fluctuations. The European Currency Unit (which was replaced by the euro) and the Asian Currency Unit are examples of currency baskets.

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Currency Binary

A currency trade that offers an all-or-nothing payoff based on a given currency exchange rate when the position reaches its expiration date. Binaries have a single payoff amount rather than the variable profit amounts found in traditional options.

Binary trades can be used for either hedging purposes (such as downside protection for assets held in a specific currency) or as a speculative bet on the direction a specific exchange rate will move. The going premium on a currency binary represents the consensus "odds" that the strike exchange rate will be reached by expiration. An investor or trader can also sell (short) a currency binary position, reversing the payoff options and effectively betting that the exchange rate will fall.

Currency binaries represent a rather young trading strategy, and not all currency exchange rates are currently being traded. The majority of positions are for the EUR/USD, GBP/USD and USD/YEN based on their very liquid forex markets.

For example, assume that the exchange rate for the EUR/USD is currently 1.25; an investor who buys a currency binary at a strike exchange rate of 1.30 is betting that the exchange rate will be 1.30 or greater on the expiration date. If this occurs, the investor will receive a set payoff amount, no matter how far above 1.30 the exchange rate settles. If the exchange rate at expiration is less than 1.30, the long investor receives nothing.

Currency Carry Trade

A strategy in which an investor sells a certain currency with a relatively low interest rate and uses the funds to purchase a different currency yielding a higher interest rate. A trader using this strategy attempts to capture the difference between the rates - which can often be substantial, depending on the amount of leverage the investor chooses to use.
Here's an example of a "yen carry trade": a trader borrows 1,000 yen from a Japanese bank, converts the funds into U.S. dollars and buys a bond for the equivalent amount. Let's assume that the bond pays 4.5% and the Japanese interest rate is set at 0%. The trader stands to make a profit of 4.5% (4.5% - 0%), as long as the exchange rate between the countries does not change. Many professional traders use this trade because the gains can become very large when leverage is taken into consideration. If the trader in our example uses a common leverage factor of 10:1, then she can stand to make a profit of 45%.

The big risk in a carry trade is the uncertainty of exchange rates. Using

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the example above, if the U.S. dollar was to fall in value relative to the Japanese yen, then the trader would run the risk of losing money. Also, these transactions are generally done with a lot of leverage, so a small movement in exchange rates can result in huge losses unless hedged appropriately.

Currency Certificate

A note that grants the holder the right to convert a specific amount of one currency to another at a given exchange rate until it expires. A currency certificate is a bearer certificate in that there is no registered owner. Currency certificates are a useful tool for hedging foreign exchange risk.

For example, suppose that Company XYZ is based in America but also has operations in Canada. The company will be receiving Canadian dollars from sales, but will want them to be exchanged for U.S. dollars. If the U.S. dollar weakens relative to the Canadian dollar, the company will lose money.

Each month, Company XYZ forecasts the next month's Canadian sales. The company could purchase one-month currency certificates for the amount of next month's estimated Canadian sales at a foreign exchange rate specified today. This will protect the company if the Canadian dollar appreciates relative to the U.S. dollar, because it can turn in these certificates and convert the currency at the note's specified rate. If the U.S. dollar appreciates relative to the Canadian dollar, the certificates will not be used.

Currency Convertibility

The ease with which a country's currency can be converted into gold or another currency. Convertibility is extremely important for international commerce. When a currency in inconvertible, it poses a risk and barrier to trade with foreigners who have no need for the domestic currency.

Government restrictions can often result in a currency with a low convertibility. For example, a government with low reserves of hard foreign currency often restrict currency convertibility because the government would not be in a position to intervene in the foreign exchange market (i.e. revalue, devalue) to support their own currency if and when necessary.

Currency Forward

A forward contract in the forex market that locks in the price at which an entity can buy or sell a currency on a future date. Also known as "outright forward currency transaction", "forward outright" or "FX

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forward".

In currency forward contracts, the contract holders are obligated to buy or sell the currency at a specified price, at a specified quantity and on a specified future date. These contracts cannot be transferred.

Currency Futures
A transferable futures contract that specifies the price at which a specified currency can be bought or sold at a future date.

Currency future contracts allow investors to hedge against foreign exchange risk. Since these contracts are marked-to-market daily, investors can--by closing out their position--exit from their obligation to buy or sell the currency prior to the contract's delivery date.

Currency Internationalization
The widespread use of a currency outside the original country in which it was created for the purposes of conducting transactions between sovereign states. The level of currency internationalization for a currency is determined by the demand other countries have for that currency. This depends on the amount of business that is performed between the countries and/or the perceived value of the currency as a good store of value.

From the 1970s onward, the currency with the highest amount of currency internationalization was the U.S. dollar.

Billions (if not trillions) of U.S. dollar reserves are held in Asian countries (such as Japan or China), which has caused the U.S. dollar to rise in value in recent years. However, there are concerns as to what would happen if some other currency (such as the euro) gained higher rates of currency internationalization. Some believe that the resulting flood of U.S. dollars could dramatically decrease the value of the dollar and take away America's title as the world's strongest economy.

Currency Option
A contract that grants the holder the right, but not the obligation, to buy or sell currency at a specified exchange rate during a specified period of time. For this right, a premium is paid to the broker, which will vary depending on the number of contracts purchased. Currency options are one of the best ways for corporations or individuals to hedge against adverse movements in exchange rates.

Investors can hedge against foreign currency risk by purchasing a currency option put or call. For example, assume that an

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investor believes that the USD/EUR rate is going to increase from 0.80 to 0.90 (meaning that it will become more expensive for a European investor to buy U.S dollars). In this case, the investor would want to buy a call option on USD/EUR so that he or she could stand to gain from an increase in the exchange rate (or the USD rise).

Currency Overlay

The outsourcing of currency risk management to a specialist firm, known as the overlay manager. This is used in international investment portfolios to separate the management of currency risk from the asset allocation and security selection decisions of the investor's money managers.

The overlay manager's hedging is "overlaid" on the portfolios created by the other money managers, whose activities continue unaffected.

Currency Pair

The quotation and pricing structure of the currencies traded in the forex market: the value of a currency is determined by its comparison to another currency. The first currency of a currency pair is called the "base currency", and the second currency is called the "quote currency". The currency pair shows how much of the quote currency is needed to purchase one unit of the base currency.

All forex trades involve the simultaneous buying of one currency and selling of another, but the currency pair itself can be thought of as a single unit, an instrument that is bought or sold. If you buy a currency pair, you buy the base currency and sell the quote currency. The bid (buy price) represents how much of the quote currency is needed for you to get one unit of the base currency. Conversely, when you sell the currency pair, you sell the base currency and receive the quote currency. The ask (sell price) for the currency pair represents how much you will get in the quote currency for selling one unit of base currency.

For example, if the USD/EUR currency pair is quoted as being USD/EUR = 1.5 and you purchase the pair, this means that for every 1.5 euros that you sell, you purchase (receive) US$1. If you sold the currency pair, you would receive 1.5 euros for every US$1 you sell. The inverse of the currency quote is EUR/USD, and the corresponding price would be EUR/USD = 0.667, meaning that US$0.667 would buy 1 euro.

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Currency Risk

A form of risk that arises from the change in price of one currency against another. Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged.

For example if you are a U.S. investor and you have stocks in Canada, the return that you will realize is affected by both the change in the price of the stocks and the change of the Canadian dollar against the U.S. dollar. Suppose that you realized a return in the stocks of 15% but if the Canadian dollar depreciated 15% against the U.S. dollar, you would realize no gain.

Academic studies of currency risk suggest - although, without absolute certainty - that investors bearing currency risk are not compensated with higher potential returns, meaning it is essentially a needless risk to bear.

Currency Swap

A swap that involves the exchange of principal and interest in one currency for the same in another currency. It is considered to be a foreign exchange transaction and is not required by law to be shown on the balance sheet.

For example, suppose a U.S.-based company needs to acquire Swiss francs and a Swiss-based company needs to acquire U.S. dollars. These two companies could arrange to swap currencies by establishing an interest rate, an agreed upon amount and a common maturity date for the exchange. Currency swap maturities are negotiable for at least 10 years, making them a very flexible method of foreign exchange.

Currency swaps were originally done to get around exchange controls.

CVE

In currencies, this is the abbreviation for the Cape Verde Escudo.

CYP

In currencies, this is the abbreviation for the Cyprus Pound.

CZK

In currencies, this is the abbreviation for the Czech Koruna.

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Daily Chart

A line graph that displays the intraday movements of a given security. This contrasts to longer term charts, such as those that show a security's movement over a period of days, months or even years.

Daily charts display all of the price movement for the period and are typically used by day traders to implement short-term strategies.

Because the forex operates 24 hours a day, there is technically no stoppage of trading between one trading day and the next as there is in other markets. As a result, the convention is to consider a forex day to be from 5pm EST to the same time on the following day, and most daily charts are displayed this way.

Daily Cut-Off

In the forex market, a particular point in time specified by a forex dealer to stand as the end of the current trading day and the beginning of a new trading day. This is done for primarily administrative and logistical reasons, because although the forex market trades 24 hours a day, the market and its intermediaries require a specified beginning and end to each trading day in order to record trade dates and define settlement periods.

For example, let's say a forex dealer specified that the daily cut-off was 5pm every day, and a trader placed two forex trades on the evening of January 1 - one at 4:50pm and another at 5:15pm. Since the daily cut-off is 5pm, the first trade would be booked as taking place on January 1, while the second would be recorded as a January 2 trade, since it took place after the daily cut-off.

Daily Trading Limit

The maximum gain or loss on a derivative contract, such as options and futures contracts, that is allowed in any one trading session. The limits are imposed by the exchanges in order to protect against extreme volatility or manipulation within the markets.

When daily trading limits have been reached, it is said to be a "locked market", and trading will halt for any trades that break the threshold or trading will close for that particular security.
Daily trading limits can also be in place for currency trading, such as China's daily trading limit of 0.5% for the Chinese renminbi against the U.S. dollar. When a particular commodity or contract has reached the daily trading limit, it may be considered "limit up" or "limit down", depending on the direction of the day's move.

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Trading limits are much more important for derivatives than for stocks or bonds, for example, because so many investors use massive amounts of leverage to trade commodities, currencies and futures contracts.

Dayrate Volatility
The intraday volatility of an exchange rate (or price of a good or service), that changes due to imbalances in supply and demand. Price levels of various goods or services can change very quickly depending on the current market condition.

Low levels of dayrate volatility illustrate that the market is complacent, and the existing price is not a major concern for the transacting parties. On the other hand, a rise in dayrate volatility can be used to signal fear, or a lack of supply. This degree of volatility generally results in large price fluctuations, which suggests that the market is in a state of panic because there may be a larger group of sellers than there are buyers.

Decentralized Market
A market structure that consists of a network of various technical devices that enable investors to create a marketplace without a centralized location. In a decentralized
market, technology provides investors with access to various bids/ask prices and makes it possible for them to deal directly with other investors/dealers rather than with a given exchange.

The foreign exchange market is an example of a decentralized market because there is no one physical location where investors go to buy or sell currencies. Forex traders can use the internet to check the quotes of various currency pairs from different dealers from around the world.

Deflation
A general decline in prices, often caused by a reduction in the supply of money or credit. Deflation can be caused also by a decrease in government, personal or investment spending. The opposite of inflation, deflation has the side effect of increased unemployment since there is a lower level of demand in the economy, which can lead to an economic depression.

Declining prices, if they persist, generally create a vicious spiral of negatives such as falling profits, closing factories, shrinking employment and incomes, and increasing defaults on loans by companies and individuals. To counter deflation, the Federal Reserve (the Fed) can use monetary policy to increase the money supply and deliberately induce rising prices, causing inflation. Rising prices provide

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an essential lubricant for any sustained recovery because businesses increase profits and take some of the depressive pressures off wages and debtors of every kind.

Depreciation
A decrease in the value of a particular currency relative to other currencies.

Examples of currency depreciation are the infamous Russian ruble crisis in 1998, which saw the ruble lose 25% of its value in one day.

Devaluation
A deliberate downward adjustment to a country's official exchange rate relative to other currencies. In a fixed exchange rate regime, only a decision by a country's government (i.e. central bank) can alter the official value of the currency. Contrast to "revaluation".

There are two implications for a currency devaluation. First, devaluation makes a country's exports relatively less expensive for foreigners and second, it makes foreign products relatively more expensive for domestic consumers, discouraging imports. As a result, this may help to reduce a country's trade deficit.

Diamond Top Formation
A technical analysis reversal pattern that is used to signal the end of an uptrend. This relatively uncommon pattern is found by identifying a period in which the price trend of an asset starts to widen and then starts to narrow. This pattern is called a diamond because of the shape it creates on a chart.

Since technical traders use this pattern to predict a reversal of an uptrend, a short position is taken when the price falls below the lower ascending trendline. In general, price targets are usually set to be equal to the entry price minus the distance between the top and the bottom of the pattern.

Direct Quote
A foreign exchange rate quoted as the domestic currency per unit of the foreign currency. In other words, it involves quoting in fixed units of foreign currency against variable amounts of the domestic currency.

For example, in the U.S., a direct quote for the Canadian dollar would be US$0.85 = C$1. Conversely, in Canada, a direct quote for U.S. dollars would be C$1.17 = US$1.

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Dirty Float

A system of floating exchange rates in which the government or the country's central bank occasionally intervenes to change the direction of the value of the country's currency. In most instances, the intervention aspect of a dirty float system is meant to act as a buffer against an external economic shock before its effects become truly disruptive to the domestic economy. Also known as a "managed float".

For example, country X may find that some hedge fund is speculating that its currency will depreciate substantially, thus the hedge fund is starting to short massive amounts of country X's currency. Because country X uses a dirty float system, the government decides to take swift action and buy back a large amount of its currency in order to limit the amount of devaluation caused by the hedge fund.

A dirty float system isn't considered to be a true floating exchange rate because, theoretically, true floating rate systems don't allow for intervention.

DJF

In currencies, this is the abbreviation for the Djibourti Franc.

DKK

In currencies, this is the abbreviation for the Danish Krone.

Dollar Drain

A situation that occurs when a country imports more goods and services from another country than it exports back to the same country. The net effect of spending more money importing than is received from exporting causes a net reduction in the importing country's reserves of the exporting country's currency.

For example, if Canada has exported $500 million worth of goods and services to the U.S. and has also imported $650 million worth of goods and services from the U.S., the net effect will be a reduction in Canada's U.S. dollar reserves.
A dollar drain position should not be maintained indefinitely. As a result of the laws of supply and demand, importing more than exporting will likely cause a devaluation of the importing country's currency. However, this effect will be mitigated if foreign investors pour their money into the importing country's stocks and bonds, as these actions will increase the demand for the importing country's currency, causing it to appreciate in value.

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DOP

In currencies, this is the abbreviation for the Dominican Republic Peso.

Double No-Touch Option

A type of exotic option that gives an investor an agreed upon payout if the price of the underlying asset does *not* reach or surpass one of two predetermined barrier levels. An investor using this type of option pays a premium to his/her broker and in turn receives the right to choose the position of the barriers, the time to expiration, and the payout to be received if the price fails to breach either barrier. With this type of option, the maximum possible loss is just the cost of setting up the option.

A double no-touch option is the opposite of a double one-touch option.

This type of option is useful for a trader who believes that the price of an underlying asset will remain rangebound over a certain period of time. Double no-touch options are growing in popularity among traders in the forex markets.

For example, assume that the current USD/EUR rate is 1.20 and the trader believes that this rate will not change dramatically over the next 14 days. The trader could use a double no-touch option with barriers at 1.19 and 1.21 to capitalize on this outlook. In this case, the trader stands to make a profit if the rate fails to move beyond either of the two barriers.

Double One-Touch Option

A type of exotic option that gives an investor an agreed upon payout if the price of the underlying asset reaches or surpasses one of two predetermined barrier levels. An investor using this type of option is able to determine the position of both barriers, the time to expiration, and the payout to be received if the price does rise above one of the barriers. Either one of the barrier levels must be breached prior to expiration for the option to become profitable and for the buyer to receive the payout. If neither barrier level is breached prior to expiration, the option expires worthless and the trader loses all the premium paid to the broker for setting up the trade.

This type of option is useful for traders who believe the price of an underlying asset will undergo a large price movement, but who are unsure of the direction. Some traders view this type of exotic option as being like a straddle position, since the trader stands to benefit on a calculated price movement up or down in both scenarios. This type of option is growing in popularity among traders in the forex markets.

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For example, assume the USD/EUR rate is 1.20 and the trader believes that next week's economic numbers will greatly affect this rate. A trader can use a double one-touch option with barriers at 1.19 and 1.21 to capitalize on this outlook. In this case, the trader stands to make a profit if the rate moves beyond either of these levels before expiry, and he/she stands to lose the premium if the rate remains within these barriers.

Dual Currency Deposit
A fixed deposit with variable terms for the currency of payment. Deposits are made in one currency, but withdrawals at maturity occur either in the currency of the initial deposit or in another agreed upon currency.

This is a deposit that creates a foreign exchange rate risk for the investor. Similar to a currency swap, you can be rewarded or punished for the risk taken.

Dual Exchange Rate
A situation in which there is a fixed official exchange rate and an illegal market-determined parallel exchange rate. The different exchange rates are used in different situations, either in exchanges or evaluations, as mandated by the government.

Argentina adopted a dual exchange rate following its catastrophic economic troubles in the beginning of 2002. The illegal market-determined exchange rate would be preferred in a situation such as a cost-benefit analysis conducted on behalf of the Argentinean government.

Dutch Disease
An economic condition that, in its broadest sense, refers to negative consequences arising from large increases to a country's income. Dutch disease is primarily associated with a natural resource discovery, but it can result from any large increase in foreign currency, including foreign direct investment, foreign aid or a substantial increase in natural resource prices.

This condition arises when foreign currency inflows cause an increase in the affected country's currency. This has two main effects for the country with Dutch disease:

1. A decrease in the price competitiveness, and thus the exports, of its manufactured goods

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2. An increase in imports

In the long run, both these factors can contribute to manufacturing jobs being moved to lower-cost countries. The end result is that non-resource industries are hurt by the increase in wealth generated by the resource-based industries.

The term "Dutch disease" originates from a crisis in the Netherlands in the 1960s that resulted from discoveries of vast natural gas deposits in the North Sea. The newfound wealth caused the Dutch gilder to rise, making exports of all non-oil products less competitive on the world market.

In the 1970s, the same economic condition occurred in Great Britain, when the price of oil quadrupled and it became economically viable to drill for North Sea Oil off the coast of Scotland. By the late 1970s, Britain had become a net exporter of oil; it had previously been a net importer. The pound soared in value, but the country fell into recession when British workers demanded higher wages and exports became uncompetitive.

Critics say you can't blame such economic hardships on just one factor (say, rising oil prices) because there are so many other variables at play in the economy.

Earning The Points

A currency trading term that describes when the forward ask price is lower than the spot bid price, resulting in a gain for the trader. A trader is gaining the points when he or she sells at one price now then agrees to buy for less in the future. Gaining the point only refers to the difference between sell and buy prices and does not take the time value of money into account.

This is the opposite of "losing the points".

If the individual sells at the higher ask price in the spot market, then buys at a lower bid price in the futures market, he or she is gaining the points.

For example, suppose that Peter sells the British pound at 2.2055 dollars per British pound in the spot and enters into a forward contract to buy the pound back at 2.2000 dollars per pound in the future. Peter is gaining the points, in this case 0.0055 dollars per pound.

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Economic Exposure
An exposure to fluctuating exchange rates, which affects a company's earnings, cash flow and foreign investments. The extent to which a company is affected by economic exposure depends on the specific characteristics of the company and its industry.

Most large companies attempt to minimize the risk of fluctuating exchange rates by hedging with positions in the forex market. Companies that do a lot of business in many countries, such as import/export companies, are at particular risk for economic exposure.

EEK
In currencies, this is the abbreviation for the Estonian Kroon.

EGP
In currencies, this is the abbreviation for the Egyptian Pound.

Either-Way Market
A condition that exists in the eurodollar interbank deposit market when the bid and offer rates for a particular period are equal. Increasing levels of liquidity can narrow the spread between bid and offer rates until the two values are identical, resulting in an either-way market.

In an either-way market, banks can go either way between lending or borrowing at the current rate. The convergence of the bid and offer rates creates this indifference point.

Equity Linked Foreign Exchange Option (ELF-X)
A put or call option that protects an investor from foreign-exchange risk for a future sale or purchase of a specified foreign-equity portfolio.

ELF-X options are a combination of a currency option and an equity forward contract. Should the exchange rate work in the investor's favor under the option contract, the total payout from the option is dependent upon the performance of the equities underlying the contract. Otherwise, the investor does not receive a payout.

For example, if an investor holds an ELF-X call option on USD relative to CAD, and the Canadian dollar depreciates relative to the American, the investor would not receive a payout. However, if USD depreciated relative to CAD, the investor would receive the amount saved from use of the spot exchange rate in the option contract and the foreign-equity portfolio value, less the premium paid for the call option. Also known as a "portfolio currency protection option" or PCPO.

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ETB
In currencies, this is the abbreviation for the Ethiopian Birr.

EUR
In currencies, this is the abbreviation for the euro, and when written numerically, it looks like this: ¬100.

Euro
The official currency of the European Union's (EU) member states. The euro was introduced by the EU in to the financial community in 1999 and physical euro coins and paper notes were introduced in 2002. Euros are printed and managed by the European System of Central Banks (ESCB). The euro is abbreviated by the symbol "EUR".

The euro is the national currency of the EU member states who have adopted it, including Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain. Together, these countries create what is called the Eurozone, a region where the euro serves as a common national currency for all of the separate nations.

This has important benefits, such as removing exchange rate risk from businesses and financial institutions operating in an increasingly globalized economy. On the other hand, critics of the euro system argue that it produces negative consequences, such as concentrating the power to set monetary policy in the European Central Bank. This removes the ability of the EU's member nations to implement monetary policies specific to themselves, locking them into the monetary policy established for the entire Eurozone, even though local monetary conditions may differ substantially from the overall Eurozone.

Euro LIBOR
London Interbank Offer Rate denominated in euros. This is the interest rate that banks offer each other for large short-term loans in euros. The rate is fixed once a day by a small group of large London banks but fluctuates throughout the day. This market makes it easier for banks to maintain liquidity requirements because they are able to quickly borrow from other banks that have surpluses.

The Euro LIBOR is based on the average lending rates of 16 banks. These bank rates are available to the public through the British Bankers' Association. Euro LIBOR exists mainly for continuity purposes in swap contracts dating back to pre-euro times and is not very commonly used.

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Euroclear
One of two principal clearing houses for securities traded in the Euromarket. Euroclear specializes in verifying information supplied by two brokers in a securities transaction and the settlement of securities. Euroclear is market owned and governed, and has previously acquired London Crest, Necigef Netherlands, Sicovam Paris and CIK Brussels.

Euroclear is one the oldest settlement systems and was originally subsidized by Morgan Guaranty. Its computerized settlement and deposit system helps ensure the safe delivery and payment of Eurobonds.

The other principal clearing house is Clearstream, formerly the Centrale de Livraison de Valeurs Mobilières (CEDEL).

Eurocommercial Paper
An unsecured, short-term loan issued by a bank or corporation in the international money market, denominated in a currency that differs from the corporation's domestic currency.

For example, if a U.S. corporation issues a short-term bond denominated in Canadian dollars to finance its inventory through the international money market, it has issued eurocommercial paper.

Eurocurrency Market
The money market in which Eurocurrency, currency held in banks outside of the country where it is legal tender, is borrowed and lent by banks in Europe. The Eurocurrency market allows for more convenient borrowing, which improves the international flow of capital for trade between countries and companies.

For example, a Japanese company borrowing U.S. dollars from a bank in France is using the Eurocurrency market.

Euromarket
The market that includes all of the European Union member countries - many of which use the same currency, the euro. All tariffs between Euromarket member countries have been abolished, and import duties from all non-meber countries have been fixed for all of the member countries. The Euromarket also has one central bank for all of the member countries, the European Central Bank (ECB). Also known as "the common market".

The Euromarket is a large single market comprised of all member

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countries, allowing for more efficient trade and the centralization of monetary policy through the ECB. The Euromarket is considered a major finance source for international trade, through the money market or eurocurrency, eurocredit and eurobonds.

European Central Bank (ECB)
The central bank responsible for the monetary system of the European Union (EU) and the euro currency. The bank was formed in Germany in June 1998 and works with the other national banks of each of the EU members to formulate monetary policy that helps maintain price stability in the European Union.

The European Central Bank has been responsible for the monetary policy of the European Union since January 1, 1999, when the euro currency was adopted by the EU members. The responsibilities of the ECB are to formulate monetary policy, conduct foreign exchange, hold currency reserves and authorize the issuance of bank notes, among many other things.

European Currency Quotation
An indirect quotation in the foreign exchange markets whereby the value of a foreign currency is stated as a per-unit measure of the U.S. dollar. This type of quotation shows how much foreign currency it takes to purchase one U.S. dollar.

For example, a European currency quote would be C$1.24 per US$1. This explains that it will take 1.24 Canadian dollars to purchase a single unit of U.S. currency. If you wanted to purchase US$1,000 it would cost C$1,240.

European Monetary System (EMS)
A 1979 arrangement between several European countries to link their currencies in an attempt to stabilize the exchange rate. This system was succeeded by the European Monetary Union (EMU), an institution of the European Union (EU), which established a common currency called the euro.

The European Monetary System originated in an attempt to stabilize inflation and stop large exchange-rate fluctuations between European countries. Then in June 1998, the European Central Bank was established and, in Jan 1999, a unified currency, the euro, was born and came to be used by most EU member countries. As of 2005, Britain, Denmark and Sweden were the only original EU members that had not adopted the euro.

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European Terms

A foreign exchange quoting convention where the domestic currency is quoted in terms of a foreign currency. In other words, it is the amount of foreign currency that one unit of the domestic currency can buy.

For example, assume there is a bid quote of EUR 1.3446/USD, and an ask quote of EUR 1.3448/USD. From the United States perspective, these quotes are given in European terms. Although the bid and ask quotes given here are in European terms, the bid and ask quotes in American terms will be reversed.

European Union (EU)

A group of European countries that participates in the world economy as one economic unit and operates under one official currency, the euro. The EU's goal is to create a barrier-free trade zone and to enhance economic wealth by creating more efficiency within its marketplace.

The current formalized incarnation of the European Union was created in 1993 with 12 initial members. Since then, many additional countries have since joined. The EU has become one of the largest producers in the world, in terms of GDP, and the euro has maintained a competitive value against the U.S. dollar.

EU and non-EU members must agree to many legal requirements in order to trade with the EU member states.

Euroyen

Japanese yen-denominated deposits held in banks outside Japan. Also a term that refers to yen traded in the Eurocurrency market.

An example of Euroyen would be yen deposits held in U.S. banks.

Eurozone

A geographic and economic region that consists of all the European Union countries that have fully incorporated the euro as their national currency. Also referred to as "euroland".

The eurozone is one of the largest economic regions in the world and its currency, the euro, is considered one of the most liquid when compared to others. This region's currency continues to develop over time and is taking a more prominent position in the reserves of many central banks.

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Exchange Control

Types of controls that governments put in place to ban or restrict the amount of foreign currency or local currency that is allowed to be traded or purchased. Common exchange controls include banning the use of foreign currency and restricting the amount of domestic currency that can be exchanged within the country.

Typically, countries that employ exchange controls are those with weaker economies. These controls allow countries a greater degree of economic stability by limiting the amount of exchange rate volatility due to currency inflows/outflows.

The International Monetary Fund has a provision called article 14, which only allows countries with transitional economies to employ foreign exchange controls.

Exchange Rate

The price of one country's currency expressed in another country's currency. In other words, the rate at which one currency can be exchanged for another. For example, the higher the exchange rate for one euro in terms of one yen, the lower the relative value of the yen.

In most financial papers, currencies are expressed in terms of U.S. dollars, while the dollar is commonly compared to the Japanese yen, the British pound and the euro. As of the beginning of 2006, the exchange rate of one U.S. dollar for one euro was about 0.84, which means that one dollar can be exchanged for 0.84 euros.

Exchange Stabilization Fund (ESF)

Money available to the U.S. Treasury Department primarily used for participating in the foreign-exchange market in an attempt to maintain currency stability. It holds U.S. dollars, foreign currencies and special drawing rights.

The ESF allows the U.S. government to intervene in the forex market to influence exchange rates, usually the domain of the central bank, without affecting the domestic money supply. This money is also used to provide financing to foreign countries.

Exotic Currency

A foreign exchange term for a thinly traded currency. Exotic currencies are illiquid, lack market depth and trade at low volumes. Trading an exotic currency can be expensive, as the bid-ask spread is usually large.

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Exotics are not considered major currencies because they are not easily traded in a standard brokerage account. Major currencies include the U.S. dollar, Euro, Canadian dollar and Swiss franc. Examples of exotic currencies include the Thai baht, Uruguay peso or Iraqi dinari.

Failure To Deliver

An outcome in a transaction where one of the counterparties in the transaction fails to meet their respective obligations. When failure to deliver occurs, either the party with the long position does not have enough money to pay for the transaction, or the party in the short position does not own the underlying assets that are to be delivered. Failure to deliver can occur in both equity and derivatives markets.

Whenever a trade is made, both parties in the transaction will have to transfer the cash and assets before the settlement date. Subsequently, if the transaction is not settled, one side of the transaction has failed to deliver. Failure to deliver also can occur if there is a technical problem in the settlement process carried out by the respective clearing house.

For forward contracts, a party with the short position's failure to deliver can cause significant problems for the party with the long position, because these contracts often involve significant volumes of commodities that are pertinent to long position's business operations.

Failure to deliver is also important when discussing naked short selling. When naked short selling occurs an individual agrees to sell a stock that they neither own nor have borrowed. Subsequently, the failure to deliver creates what are called "phantom shares" in the market which may dilute the price of the underlying stock.

Finmins

Nickname given to the finance ministers from various countries who meet at global trade summits. Finance ministers are appointed and, depending on the country, the position can be given to an elected representative or to a non-elected official. The role played by a finance minister and the power he or she holds will vary among countries, but "finmins" are generally responsible for shaping or advising on the budget of a country and helping with other economic policies.

This term is most often seen in the financial press, in reference to meetings between the financial ministers of various countries, especially the eurozone meetings. For example, you might see the

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headline, "G7 finmins meet in Canada to discuss debt repayments from third world".

Fixed Exchange Rate

A country's exchange rate regime under which the government or central bank ties the official exchange rate to another country's currency (or the price of gold). The purpose of a fixed exchange rate system is to maintain a country's currency value within a very narrow band. Also known as pegged exchange rate.

Fixed rates provide greater certainty for exporters and importers. This also helps the government maintain low inflation, which in the long run should keep interest rates down and stimulate increased trade and investment.

Fixed-For-Fixed Swaps

An arrangement between two parties (known as counterparties) in which both parties pay a fixed interest rate that they could not otherwise obtain outside of a swap arrangement.

To understand how investors benefit from these types of arrangements, consider a situation in which each party has a comparative advantage to take out a loan at a certain rate and currency. For example, an American firm can take out a loan in the United States at a 7% interest rate, but requires a loan in yen to finance an expansion project in Japan, where the interest rate is 10%. At the same time, a Japanese firm wishes to finance an expansion project in the U.S., but the interest rate is 12%, compared to the 9% interest rate in Japan.

Each party can benefit from the other's interest rate through a fixed-for-fixed currency swap. In this case, the U.S. firm can borrow U.S. dollars for 7%, then lend the funds to the Japanese firm at 7%. The Japanese firm can borrow Japanese yen at 9%, and then lend the funds to the U.S. firm for the same amount.

Fixed-For-Floating Swap

An advantageous arrangement between two parties (counterparties), in which one party pays a fixed rate, while the other pays a floating rate.

To understand how each party would benefit from this type of arrangement, consider a situation where each party has a comparative advantage to take out a loan at a certain rate and currency. For example, Company A can take out a loan with a one-year term in the U.S. for a fixed rate of 8% and a floating rate of Libor + 1% (which is comparatively cheaper, but they would prefer a fixed rate). On the

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other hand, Company B can obtain a loan on a one-year term for a fixed rate of 6%, or a floating rate of Libor +3%, consequently, they'd prefer a floating rate.

Through an interest rate swap, each party can swap its interest rate with the other to obtain its preferred interest rate

Note that swap transactions are often facilitated by a swap dealer, who will act as the required counterparty for a fee.

FJD
In currencies, this is the abbreviation for the Fiji Dollar.

FKP
In currencies, this is the abbreviation for the Falkland Islands Pound.

Flat
In forex, the condition of being neither long nor short in a particular currency. Also referred to as 'being square'.

If you had no positions in the U.S. dollar or your long and short positions canceled each other out, you would be flat or have a flat book.

Flat On A Failure
A strategy of closing out of a position and taking profits if the security in question moves up to a target level but fails to break through it. This can be seen as a method of extracting what profit a trade has been able to produce so far because the trader believes that further movement past the target level is unlikely.

For example, suppose that a trader is in a long position on a given currency pair and the exchange rate moves upward in her favor by a moderate amount but fails to move past a key resistance level she was expecting to act as a catalyst for further movement. In this case, the trader would probably deem the trade flat on a failure and close the position out for whatever profit had been earned.

Flip
A point when traders shift from having more long positions to having more short positions.

This can be a very effective tool for determining the trend of a certain currency. A shift from long to short positions indicates that the market's bullish outlook on a specific currency could be coming to an end.

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Floating Exchange Rate

A country's exchange rate regime where its currency is set by the foreign-exchange market through supply and demand for that particular currency relative to other currencies. Thus, floating exchange rates change freely and are determined by trading in the forex market. This is in contrast to a "fixed exchange rate" regime.

In some instances, if a currency value moves in any one direction at a rapid and sustained rate, central banks intervene by buying and selling its own currency reserves (i.e. Federal Reserve in the U.S.) in the foreign-exchange market in order to stabilize the local currency. However, central banks are reluctant to intervene, unless absolutely necessary, in a floating regime.

Foreign Currency Effects

The gain or loss on foreign investments due to changes in the relative value of assets denominated in a currency other than the principal currency with which a company normally conducts business. A rising domestic currency means foreign investments will result in lower returns when converted back to the domestic currency. The opposite is true for a declining domestic currency.

Foreign investments are complicated by currency fluctuation and conversion between countries. A high quality investment in another country may prove worthless because of a weak currency. Foreign-denominated debt used to purchase domestic assets has led to bankruptcy in several cases due to a fast decline in a domestic currency or a rapid rise in the currency of the foreign-denominated debt.

Foreign Exchange Dealers Association Of India (FEDAI)

An association of banks specializing in the foreign exchange activities in India. The Foreign Exchange Dealers Association of India, which was created in 1958, regulates the governing rules and determines the commissions and charges associated with the interbank foreign exchange business.

FEDIA determines many of the rules that overlook the day-to-day forex transactions in India. In addition to rule setting, FEDIA assists member banks by acting as an advisor and assists with the training of personnel. The association is responsible for accrediting India's foreign exchange brokers and announcing the exchange rates to its member banks.

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Foreign Official Dollar Reserves (FRODOR)

A term coined by economist Ed Yardeni relating international liquidity to the effect of foreign central banks on U.S. monetary policy. It is measured as the sum of U.S. Treasury and U.S. agency securities held by foreign banks.

FRODOR is an extremely procyclical economic indicator. As the growth of FRODOR rises, so do the prices of stocks, commodities and real estate, while the U.S. dollar declines. The opposite is seen when the growth of FRODOR decelerates.

Foreign-Exchange Risk

1. The risk of an investment's value changing due to changes in currency exchange rates.

2. The risk that an investor will have to close out a long or short position in a foreign currency at a loss due to an adverse movement in exchange rates. Also known as "currency risk" or "exchange-rate risk".

This risk usually affects businesses that export and/or import, but it can also affect investors making international investments. For example, if money must be converted to another currency to make a certain investment, then any changes in the currency exchange rate will cause that investment's value to either decrease or increase when the investment is sold and converted back into the original currency.

Forex (FX)

The market in which currencies are traded. The forex market is the largest, most liquid market in the world with an average traded value that exceeds $1.9 trillion per day and includes all of the currencies in the world.

There is no central marketplace for currency exchange; trade is conducted over the counter. The forex market is open 24 hours a day, five days a week, and currencies are traded worldwide among the major financial centers of London, New York, Tokyo, Zürich, Frankfurt, Hong Kong, Singapore, Paris and Sydney.

The forex is the largest market in the world in terms of the total cash value traded, and any person, firm or country may participate in this market.

Forex Futures

An exchange-traded contract to buy or sell a specified amount of a given currency at a predetermined price on a set date in the future. All

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forex futures are written with a specific termination date, at which point delivery of the currency must occur unless an offsetting trade is made on the initial position.

Forex futures serve two primary purposes as financial instruments. First, they can be used by companies or sole proprietors to remove the exchange-rate risk inherent in cross-border transactions. Second, they can be used by investors to speculate and profit from currency exchange-rate fluctuations.

Forward Discount

In a foreign exchange situation where the domestic current spot exchange rate is trading at a higher level then the current domestic futures spot rate for a maturity period. A forward discount is an indication by the market that the current domestic exchange rate is going to depreciate in value against another currency.

A forward discount means the market expects the domestic currency to depreciate against another currency, but that is not to say that will happen. Although the forward expectation's theory of exchange rates states this is the case, the theory does not always hold.

Forward Points

The number of basis points added to or subtracted from the current spot rate to determine the forward rate. When points are added to the spot rate, there is a forward points premium; when points are subtracted from the spot rate, there is a points discount.

The number of forward points on a given exchange rate will be determined by the prevailing interest rates in each market, the time period between the spot and forward rate, and other market factors. For example, if the current spot rate of the USD/EUR is 0.7232 and the two-year forward rate is 0.7332, the number of forward points is 100 basis points (0.7332-0.7232).

Forward Premium

When dealing with foreign exchange (FX), a situation where the spot futures exchange rate, with respect to the domestic currency, is trading at a higher spot exchange rate then it is currently. A forward premium is frequently measured as the difference between the current spot rate and the forward rate, but any expected future exchange rate will suffice.

It is a reasonable assumption to make that the future spot rate will be

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equal to the current futures rate. According to the forward expectation's theory of exchange rates, the current spot futures rate will be the future spot rate. This theory is routed in empirical studies and is a reasonable assumption to make in the long term.

Forward Rate Agreement (FRA)
An over-the-counter contract between parties that determines the rate of interest, or the currency exchange rate, to be paid or received on an obligation beginning at a future start date. The contract will determine the rates to be used along with the termination date and notional value. On this type of agreement, it is only the differential that is paid on the notional amount of the contract. Also known as a "future rate agreement".

Typically, for agreements dealing with interest rates, the parties to the contract will exchange a fixed rate for a variable one. The party paying the fixed rate is usually referred to as the borrower, while the party receiving the fixed rate is referred to as the lender.

For a basic example, assume Company A enters into an FRA with Company B in which Company A will receive a fixed rate of 5% for one year on a principal of $1 million in three years. In return, Company B will receive the one-year LIBOR rate, determined in three years' time, on the principal amount. The agreement will be settled in cash in three years.

If, after three years time, the LIBOR is at 5.5%, the settlement to the agreement will require that Company A pay Company B. This is because the LIBOR is higher than the fixed rate. Mathematically, $1 million at 5% generates $50,000 of interest for Company A while $1 million at 5.5% generates $55,000 in interest for Company B. Ignoring present values, the net difference between the two amounts is $5,000, which is paid to Company B.

GBP
In the currency market, this is the abbreviation for the British pound.

GHC
In the currency market, this is the abbreviation for the Ghanian Cedi.

GIP
In currencies, this is the abbreviation for the Gibraltar Pound.

GMD
In currencies, this is the abbreviation for the Gambian Dalasi.

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GNF
In currencies, this is the abbreviation for the Guinea Franc.

Gnomes of Zurich
A term used by British labor ministers during the 1964 Sterling Crisis to refer to Swiss banks.

British labor ministers were convinced that the foreign exchange speculation activities of Swiss banks were causing the devaluation of the Sterling.

Just like the gnomes of legends, who dwell underground counting their riches, Swiss bankers were known for their extremely secretive policies.

Gold Standard
A monetary system in which a country's government allows its currency unit to be freely converted into fixed amounts of gold and vice versa. The exchange rate under the gold standard monetary system is determined by the economic difference for an ounce of gold between two currencies. The gold standard was mainly used from 1875 to 1914 and also during the interwar years.

The use of the gold standard would mark the first use of formalized exchange rates in history. However, the system was flawed because countries needed to hold large gold reserves in order to keep up with the volatile nature of supply and demand for currency.

After World War II, a modified version of the gold standard monetary system, the Bretton Woods monetary system, was created as its successor. This successor system was initially successful, but because it also depended heavily on gold reserves, it was abandoned in 1971 when U.S president Nixon "closed the gold window".

GTQ
In currencies, this is the abbreviation for the Guatemala Quetzal.

GYD
In currencies, this is the abbreviation for the Guyanese Dollar.

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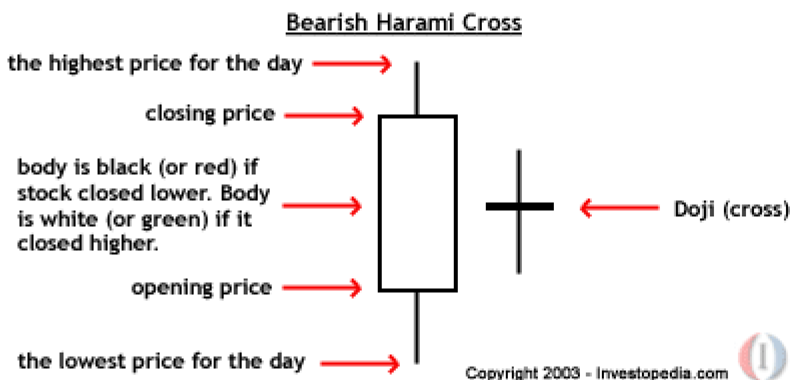
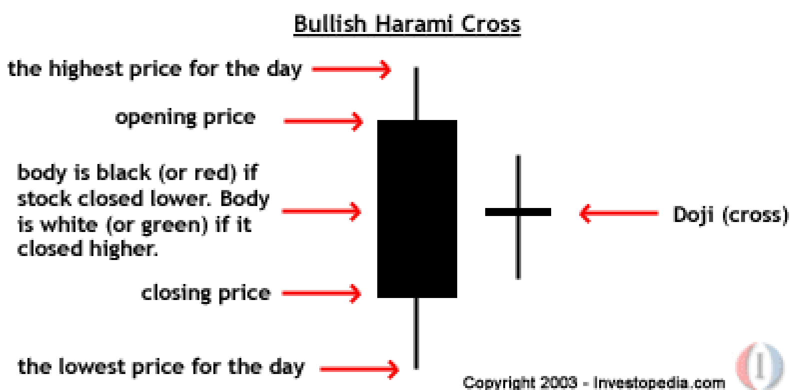
Harami Cross

A trend indicated by a large candlestick followed by a doji that is located within the top and bottom of the candlestick's body. This indicates that the previous trend is about to reverse.





A Harami cross can be either bullish or bearish, depending on the previous trend. The appearance of a Harami Cross, rather than a smaller body, increases the likelihood that the trend will reverse.

Hard Currency

A currency, usually from a highly industrialized country, that is widely accepted around the world as a form of payment for goods and services. A hard currency is expected to remain relatively stable through a short period of time, and to be highly liquid in the forex market.

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Another criterion for hard currencies is that the currency comes from a politically and economically stable country. The U.S. dollar and the British pound are good examples of hard currencies.

Hard Money
Describes gold/silver/platinum (bullion) coins. A government that uses a hard money policy backs the value of the currency it uses with a hard, tangible and lasting material that will retain its relative value over time.

For example, in the early 1900s, the U.S. dollar was backed by the value of gold. Today, most countries use fiat money, which is made legal tender by government decree but has no intrinsic value of its own.

HKD
A common acronym for the Hong Kong dollar, which is the currency of Hong Kong. It is pegged to the U.S. dollar through the use of a linked exchange rate system, where US$1 is kept in a range of HKD$7.75-$7.85.

Three Chinese note-issuing banks are authorized to issue Hong Kong dollas, subject to conditions laid out by the Hong Kong government. Banknotes then run through a government exchange fund which holds the U.S. dollars in reserves and records all transactions in the general accounts of the two currencies.

To ensure they can always keep this parity with the U.S. dollar, the Hong Kong Monetary Authority (HKMA) has to keep huge foreign exchange reserves, in amounts totalling several times the actual amount of money in circulation. The HKMA also uses other open market operations and a robust international banking system to keep the supply of Hong Kong dollars under tight restraints.

HNL
In currencies, this is the abbreviation for the Honduran Lempira.

HTG
In currencies, this is the abbreviation for the Haitian Gourde.

HUF
In currencies, this is the abbreviation for the Hungarian Forint.

IDR
In currencies, this is the abbreviation for the Indonesian Rupiah.

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ILS
In currencies, this is the abbreviation for the Israeli New Shekel.

Inconvertible Currency
A situation where one currency cannot be exchanged for another currency because of foreign exchange regulations or physical barriers. Inconvertible currencies may be restricted from trade due to extremely high volatility or political sanctions.

Labeling a currency as inconvertible allows regulators to protect investors from storing funds in an unsafe investment. For example, if a nation were to begin experiencing hyperinflation, where the value of a unit of currency rapidly depreciates, its currency could be deemed inconvertible. This would prevent investors from converting funds into the unstable currency.

Indicative Quote
In forex trading, a currency quote that is provided by a market maker to a trading party but that is not firm. In other words, when a market maker provides an indicative quote to a trader, the market maker is not obligated to trade the given currency pair at the price or the quantity stated in the quote. Contrast this to a firm quote, in which a market maker guarantees a specified bid or ask price to a trader up to the maximum quantity specified in the quote.

Market makers will typically provide indicative quotes if a trader requests a quote for a currency pair but does not specify the quantity to be traded, or if there is some doubt as to the market maker's ability to transact the currency pair at the bid or ask quoted. The bottom line is that traders can rely on indicative quotes as a reasonable estimate of the exchange rate at which they can enter their currency trade, but there is no guarantee that this will be the rate they get.

Indirect Quote
A foreign exchange rate quoted as the foreign currency per unit of the domestic currency. In an indirect quote, the foreign currency is a variable amount and the domestic currency is fixed at one unit.

For example, in the U.S., an indirect quote for the Canadian dollar would be C$1.17 = US$1. Conversely, in Canada an indirect quote for U.S. dollars would be US$0.85 = C$1.

Initial Claims
A measurement of the number of jobless claims filed by individuals seeking to receive state jobless benefits. This number is watched

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closely by financial analysts because it provides insight into the direction of the economy. Higher initial claims positively correlate with a weakening economy, and vice versa for lower initial claims.

The strength of a nation's economy will have an impact on the appreciation or depreciation of its currency against other major currencies. Therefore, forex traders typically look at the initial claims figure as part of their analysis when assessing a currency's prospects for the immediate future. Generally speaking, week-by-week numbers are too volatile to get an accurate picture of economic changes, so four-week moving averages are typically used for the initial claims metric.

INR
In currencies, this is the abbreviation for the Indian Rupee.

Interbank Market
The financial system and trading of currencies among banks and financial institutions, excluding retail investors and smaller trading parties. While some interbank trading is performed by banks on behalf of large customers, most interbank trading takes place from the banks' own accounts.

The interbank market for forex serves commercial turnover of currency investments as well as a large amount of speculative, short-term currency trading. According to data compiled in 2004 by the Bank for International Settlements, approximately 50% of all forex transactions are strictly interbank trades.

Interbank Rate
The rate of interest charged on short-term loans made between banks. Banks borrow and lend money in the interbank market in order to manage liquidity and meet the requirements placed on them. The interest rate charged depends on the availability of money in the market, on prevailing rates and on the specific terms of the contract, such as term length.

Banks are required to hold an adequate amount of liquid assets, such as cash, to manage any potential withdrawals from clients. If a bank can't meet these liquidity requirements, it will need to borrow money in the interbank market to cover the shortfall. Some banks, on the other hand, have excess liquid assets above and beyond the liquidity requirements. These banks will lend money in the interbank market, receiving interest on the assets.

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There is a wide range of published interbank rates, including the LIBOR, which is set daily based on the average rates on loans made within the London interbank market.

Interest Rate Differential (IRD)

A differential measuring the gap in interest rates between two similar interest-bearing assets. Traders in the foreign exchange market use interest rate differentials when pricing forward exchange rates. Based on the interest rate parity, a trader can create an expectation of the future exchange rate between two currencies and set the premium (or discount) on the current market exchange rate futures contracts.

The interest rate differential is a key component of the carry trade. For example, say an investor borrows US$1,000 and converts the funds into British pounds, allowing the investor to purchase a British bond. If the purchased bond yields 7% while the equivalent U.S. bond yields 3%, then the interest rate differential equals 4% (7% - 3%). The interest rate differential is the amount the investor can expect to profit using a carry trade. This profit is ensured only if the exchange rate between dollars and pounds remains constant.

Interest Rate Parity

A theory that the interest rate differential between two countries is equal to the differential between the forward exchange rate and the spot exchange rate. Interest rate parity plays an essential role in foreign exchange markets, connecting interest rates, spot exchange rates and foreign exchange rates.

The relationship can be seen when you follow the two methods an investor may take to convert foreign currency into U.S. dollars. Option A would be to invest the foreign currency locally at the foreign risk-free rate for a specific time period. The investor would then simultaneously enter into a forward rate agreement to convert the proceeds from the investment into U.S. dollars, using a forward exchange rate, at the end of the investing period. Option B would be to convert the foreign currency to U.S. dollars at the spot exchange rate, then invest the dollars for the same amount of time as in option A, at the local (U.S.) risk-free rate. When no arbitrage opportunities exist, the cash flows from both options are equal.

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International Fisher Effect (IFE)

An economic theory that states that an expected change in the current exchange rate between any two currencies is approximately equivalent to the difference between the two countries' nominal interest rates for that time.

Calculated as: $E = \frac{i_1 - i_2}{1 + i_2} \approx i_1 - i_2$

Where:
"E" represents the % change in the exchange rate
"i_1" represents country A's interest rate
"i_2" represents country B's interest rate

For example, if country A's interest rate is 10% and country B's interest rate is 5%, country B's currency should appreciate roughly 5% compared to country A's currency.

The rational for the IFE is that a country with a higher interest rate will also tend to have a higher inflation rate. This increased amount of inflation should cause the currency in the country with the high interest rate to depreciate against a country with lower interest rates.

International Foreign Exchange Master Agreement (IFEMA)

An agreement set forth by the Foreign Exchange Committee that reflects the best practices for transactions in the foreign exchange market. IFEMA was published in 1997 and sponsored by the British Bankers Association, Canadian Foreign Exchange Committee and the Tokyo Foreign Exchange Market Practices Committee.

IFEMA is a standardized agreement between two parties for the exchange of currency. The agreement covers all facets of the transaction, providing detailed practices on the creation and settlement for a forex contract. In addition to the terms of a contract, IFEMA explains the consequences of default, force majeure or other unforeseen circumstances.

International Monetary Fund (IMF)

An international organization created for the purpose of:

1. Promoting global monetary and exchange stability.

2. Facilitating the expansion and balanced growth of international trade.

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3. Assisting in the establishment of a multilateral system of payments for current transactions.

The IMF plays three major roles in the global monetary system. The Fund surveys and monitors economic and financial developments, lends funds to countries with balance-of-payment difficulties, and provides technical assistance and training for countries requesting it.

Inward Arbitrage
A form of arbitrage involving rearranging a bank's cash by borrowing from the interbank market, and re-depositing the borrowed money locally at a higher interest rate. The bank will make money on the spread between the interest rate on the local currency, and the interest rate on the borrowed currency.

Inward arbitrage works because it allows the bank to borrow at a cheaper rate than it could in the local currency market. For example, assume an American bank goes to the Interbank market to borrow at the lower eurodollar rate, and then deposits those eurodollars at a bank within the US. The larger the spread, the more money that can be made.

IQD
In currencies, this is the abbreviation for the Iraqi Dinar.

IRR
In currencies, this is the abbreviation for the Iranian Rial.

ISK
In currencies, this is the abbreviation for the Iceland Krona.

ISO Currency Code
The internationally standardized three-letter abbreviation for a country's currency.

For example, the ISO Currency Code for the United States Dollar would be USD.

JMD
In currencies, this is the abbreviation for the Jamaican Dollar.

JOD
In currencies, this is the abbreviation for the Jordanian Dina.

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KES
In currencies, this is the abbreviation for the Kenyan Shilling.

KHR
In currencies, this is the abbreviation for the Cambodian Riel.

Kiwi
A slang term for the New Zealand dollar (NZD). It derives its name from New Zealand's national icon - a flightless bird called a kiwi - which is pictured on one side of the country's $1 coin.

This is a popular term in currency trading because New Zealand's currency exchange rate is closely tied to the price/demand of the country's abundant agricultural and forestry products. It is not uncommon to hear a news report say the kiwi is up, or down, in the day's trading.

KMF
In currencies, this is the abbreviation for the Comoros Franc.

KPW
In currencies, this is the abbreviation for the North Korean Won.

KRW
In currencies, this is the abbreviation for the Korean Won.

KWD
In currencies, this is the abbreviation for the Kuwaiti Dinar.

KYD
In currencies, this is the abbreviation for the Cayman Islands Dollar.

KZT
In currencies, this is the abbreviation for the Kazakhstan Tenge.

LAK
In currencies, this is the abbreviation for the Laos Kip

Law Of One Price
The theory that the price of a given security, commodity or asset will have the same price when exchange rates are taken into consideration. The law of one price is another way of stating the concept of purchasing power parity.

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The law of one price exists due to arbitrage opportunities. If the price of a security, commodity or asset is different in two different markets, then an arbitrageur will purchase the asset in the cheaper market and sell it where prices are higher.

When the purchasing power parity doesn't hold, arbitrage profits will persist until the price converges across markets.

Lawful Money
Any form of currency issued by the United States Treasury and not the Federal Reserve System, including gold and silver coins, Treasury notes and Treasury bonds. Lawful money stands in contrast to fiat money, to which the government assigns value although it has no intrinsic value of its own and is not backed by reserves. Fiat money includes legal tender such as paper money, checks, drafts and bank notes. Also known as "specie", which means "in actual form." |

Oddly enough, the dollar bills that we carry around in our wallets are not considered lawful money. The notation on the bottom of a U.S. dollar bill reads "Legal Tender for All Debts, Public and Private", and is issued by the U.S. Federal Reserve, not the U.S. Treasury. Legal tender can be exchanged for an equivalent amount of lawful money, but effects such as inflation can change the value of fiat money; lawful money is said to be the most direct form of ownership, but for purposes of practicality it has little use in direct transactions between parties anymore.

LBP
In currencies, this is the abbreviation for the Lebanese Pound.

Leads And Lags
The alteration of normal payment or receipts in a foreign exchange transaction because of an expected change in exchange rates. An expected increase in exchange rates is likely to speed up payments, while an expected decrease in exchange rates will probably slow them down.

Accelerating the transaction is known as "leads", while slowing it down is known as "lags". Leads will result when firms or individuals making payments expect an increase in the foreign-exchange rate, while lags arise when the exchange rate is expected to fall. Leads and lags are used in an attempt to improve profits.

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Linked Exchange Rate System

A system of managing a nation's currency and exchange rate by linking the national currency to another base currency that is held at a fixed ratio in deposit at domestic banks.

Once the exchange rate is set, there is typically no interference from the government or through monetary policy decisions that will affect the exchange rate. Currency is only issued when there are reserves in the linked currency to back it up. If the exchange rate begins to shift from the fixed ratio, currency is immediately added to or taken out of circulation to bring the ratio back into balance.

This is different from simply pegging one currency to another; in a linked exchange rate system, currency can only be issued when confirmed reserves in the linked currency are held at local banking institutions. In Hong Kong, for example, this means that every Hong Kong dollar that is floating around in the economy is backed by several U.S. dollars held in reserve.

The advantage of this system is that it stabilizes the currency and keeps inflation ultra low. On the downside, the nation using it can't leverage advantages in trading with foreign partners, and can't implement monetary policy to adapt to shifts in the domestic economy.

Liquidation Level

In forex trading, the specific value of a trader's account below which the liquidation of the trader's positions is automatically triggered and executed at the best available exchange rate at the time. The liquidation level is expressed as a percentage value of assets. If a forex trader's positions go against him or her, his or her account will eventually reach the liquidation level, unless the trader contributes further margin to top up his or her account.

Forex trading makes heavy use of leverage; therefore, the forex dealer holding an account for a trader takes on the risk that the trader's positions will lose money and that the trader will be unable to repay the borrowed funds used to make the forex trades. As such, a specified liquidation level, which the trader agrees to when opening his or her account, fixes the minimum margin (expressed as a percentage) that the forex dealer will tolerate before automatically liquidating the trader's assets to avoid the possibility of default.

LKR

In currencies, this is the abbreviation for the Sri Lankan Rupee.

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Loonie
A slang term for a Canadian dollar. It is derived from the picture of a loon on one side of the coin.

Just like in the U.S. where the dollar is referred to as the "greenback", the loonie is a often used to refer to the Canadian dollar. For example one may hear in a news report that the loonie was up in today's trade.

Losing The Points
A currency trading term that describes when the banks' buying price in the forward market is lower than the selling price in the spot market. A trader is losing the points when he or she buys at one price now and then agrees to sell for less in the future. This is the opposite of earning the points.

For example, suppose that Peter buys the British pound at 2.2345 dollars per British pound in the spot and enters into a forward contract to sell the pound back at 2.2300 dollars per pound in the future. Peter is losing the points, in this case the 0.0045 dollars per pound.

LRD
In currencies, this is the abbreviation for the Liberian Dollar.

LSL
In currencies, this is the abbreviation for the Lesotho Loti.

LTL
In currencies, this is the abbreviation for the Lithuanian Litas.

LVL
In currencies, this is the abbreviation for the Latvian Lat.

LYD
In currencies, this is the abbreviation for the Libyan Dinar.

MAD
In currencies, this is the abbreviation for the Moroccan Dirham.

Mine and Yours
Terms used by floor traders to signify buying and selling. Mainly used in forex transactions.

If a trader wanted to buy something, he/she would type or say "Mine,"

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as in "It's mine." If the trader wanted to sell, he/she would type or say "Yours," as in "It's yours."

Minimum Price Contract

A forward contract with a provision guaranteeing a minimum price at delivery of the underlying agricultural commodity.

Minimum price contracts provide certainty for some investors wishing to hedge their positions. As a bare minimum, price is fixed at delivery.

MMK

In currencies, this is the abbreviation for the Myanmar Kyat.

MNT

In currencies, this is the abbreviation for the Mongolian Tughrik.

Monetary Base

The total amount of a currency that is either circulated in the hands of the public or in the commercial bank deposits held in the central bank's reserves. This measure of the money supply typically only includes the most liquid currencies. Also known as the "money base".

For example, suppose country Z has 600 million currency units circulating in the public and its central bank has 10 billion currency units in reserve as part of deposits from many commercial banks. In this case, the monetary base for country Z is 10.6 billion currency units.

For many countries, the government can maintain a measure of control over the monetary base by buying and selling government bonds in the open market.

Monetary Policy

The actions of a central bank, currency board or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

In the United States, the Federal Reserve is in charge of monetary policy.

Monetary Reserve

A nation's assets in foreign currency and/or commodities like gold and silver, which are used to back up the national currency. Monetary reserves also provide a cushion for executing central banking functions like adding to the money supply and settling foreign exchange

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contracts in local currencies.

When the United States was using the Bretton Woods inspired monetary system, only gold was used as a monetary reserve, a structural problem that most saw as a roadblock to future economic growth. The U.S. dollar is now a fiat currency (not pegged to gold reserves), and even though the Federal Reserve Banks keep a large amount of reserves, most of what is held today is used for settling short-term currency contracts and for liquidity activities for the domestic economy.

Money Supply
The entire quantity of bills, coins, loans, credit and other liquid instruments in a country's economy.
Money supply is divided into multiple categories - M0, M1, M2 and M3 - according to the type and size of account in which the instrument is kept. The money supply is important to economists trying to understand how policies will affect interest rates and growth.

MOP
In currencies, this is the abbreviation for the Macau Pataca

MRO
In currencies, this is the abbreviation for the Mauritanian Ouguiya.

MTL
In currencies, this is the abbreviation for the Maltese Lira.

MUR
In currencies, this is the abbreviation for the Mauritius Rupee.

MVR
In currencies, this is the abbreviation for the Maldive Rufiyaa.

MWK
In currencies, this is the abbreviation for the Malawi Kwacha.

MXN
In the currency market, this is the abbreviation for the Mexican peso.

MYR
In currencies, this is the abbreviation for the Malaysian Ringgit

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MZM
In currencies, this is the abbreviation for the Mozambique Metical.

NAD
In currencies, this is the abbreviation for the Namibia Dollar.

NGN
In currencies, this is the abbreviation for the Nigerian Naira.

NIO
In currencies, this is the abbreviation for the Nicaraguan Cordoba

NOK
In currencies, this is the abbreviation for the Norwegian Krone.

Nominal Effective Exchange Rate (NEER)
The unadjusted weighted average value of a country's currency relative to all major currencies being traded within an index or pool of currencies. The weights are determined by the importance a home country places on all other currencies traded within the pool, as measured by the balance of trade.

The NEER represents the relative value of a home country's currency compared to the other major currencies being traded (U.S. dollar, Japanese yen, euro, etc.). A higher NEER coefficient (above 1) means that the home country's currency will usually be worth more than an imported currency, and a lower coefficient (below 1) means that the home currency will usually be worth less than the imported currency. The NEER also represents the approximate relative price a consumer will pay for an imported good.

Nonconvertible Currency
Any currency that is used primarily for domestic transactions and is not openly traded on a forex market. This usually is a result of government restrictions, which prevent it from being exchanged for foreign currencies. Also known as a "blocked currency".

As the name implies, it is virtually impossible to convert a nonconvertible currency into other legal tender, except in limited amounts on the black market. When a nation's currency is nonconvertible it tends to limit the country's participation in international trade as well as distort its balance of trade.

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Noon Rate

A term used by the Bank of Canada to describe the foreign exchange rate between the U.S. dollar and the Canadian dollar. The rate is released by 12:45pm EST by the Bank of Canada on any given day, and is based on the trading that takes place from 11:59am to 12:01pm on that day. The noon rate is often used by companies as a benchmark for translating financial statements.

For example, if a Canadian company has operations in the U.S., it can use the noon rate as the benchmark exchange rate for translation purposes.

When accountants consolidate a company's financial statements, they will need to convert the U.S. dollars from U.S. operations into Canadian dollars which, in this particular example, will be done by using the noon rate quoted on the balance sheet date.

Some companies believe that the noon rate is a better measure of currency translation, because all of the trades they make in the FX market take place during the business day, and not at the end of the day.

Nostro Account

An account that a bank holds with a foreign bank.

Nostro accounts are usually in the currency of the foreign country. This allows for easy cash management because currency doesn't need to be converted. Nostro is derived from the latin term "ours."

NPR

In currencies, this is the abbreviation for the Nepal Rupee.

NZD

In the currency market, this is the abbreviation for the New Zealand dollar.

OMR

In currencies, this is the abbreviation for the Oman Rial.

One-Touch Option

A type of exotic option that gives an investor a payout once the price of the underlying asset reaches or surpasses a predetermined barrier. This type of option allows the investor to set the position of the barrier, the time to expiration and the payout to be received once the barrier is broken. Only two outcomes are possible with this type of option:

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1) the barrier is breached and the trader collects the full payout agreed upon at the outset of the contract, OR

2) the barrier is not breached and the trader loses the full premium paid to the broker.

This type of option is useful for traders who believe that the price of an underlying asset will exceed a certain level in the future, but who are not sure that the higher price level is sustainable. Because a one-touch option only has one barrier level, it is generally slightly less expensive than a double one-touch option. These types of options are becoming more popular with traders in the commodity and forex markets.

Outward Arbitrage
A form of arbitrage involving the rearrangement of a bank's cash by taking its local currency and depositing it into eurobanks. The interest rate will be higher in the interbank market, which will enable the bank to earn more on the interest it receives for the use of its cash.

Outward arbitrage works because it allows the bank to lend for more abroad then it could in the local market. For example, assume an American bank goes to the interbank market to lend at the higher eurodollar rate. Money will be shifted from an American bank's branch within the U.S. to a branch located outside of the U.S. The bank will earn revenues on the spread between the two interest rates. The larger the spread, the more will be made.

Overnight Trading
The buying or selling of currencies between 9pm and 8am local time. This type of transaction occurs when an investor takes a position at the end of the trading day in a foreign market that will be open while the local market is closed. The trade will be executed sometime that evening or early morning.

For example, the forex market trades 24 hours a day in exchanges around the world. The overlap of trading hours between North American, Australia, Asia and European currency exchanges makes this possible. However, investors must be aware of the significant level of risk involved with trading overnight, which includes foreign-exchange risk and overnight delivery risk.

PAB
In currencies, this is the abbreviation for the Panama Balboa.

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Panel Bank
The name given to the group of banks contributing to the EURIBOR. This group is made up of the largest participants within the Euro money market.

Panel bank institutions transact the largest volumes within the Euro market and provide stability and liquidity. Furthermore, these banks are located both inside and outside of Europe, and aren't always associated with regions recognizing the EU.

Parallel Loan
A type of foreign exchange loan agreement that was a precursor to currency swaps. A parallel loan involves two parent companies taking loans from their respective national financial institutions and then lending the resulting funds to the other company's subsidiary.

For example, ABC, a Canadian company, would borrow Canadian dollars from a Canadian bank and XYZ, a French company, would borrow euros from a French bank. Then ABC would lend the Canadian funds to XYZ's Canadian subsidiary and XYZ would lend the euros to ABC's French subsidiary.

The first parallel loans were implemented in the 1970s in the United Kingdom in order to bypass taxes that were imposed to make foreign investments more expensive.

Pegging
A method of stabilizing a country's currency by fixing its exchange rate to that of another country.

Most countries peg their exchange rate to that of the United States.

PEN
In currencies, this is the abbreviation for the Peruvian Nuevo Sol.

PGK
In currencies, this is the abbreviation for the Papua New Guinea Kina.

PHP
In currencies, this is the abbreviation for the Philippine Peso.

Pip
The smallest price change that a given exchange rate can make. Since most major currency pairs are priced to four decimal places, the smallest change is that of the last decimal point - for most pairs this is

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the equivalent of 1/100th of one percent, or one basis point.

For example, the smallest move the USD/CAD currency pair can make is $0.0001, or one basis point. The smallest move in a currency does not always need to be equal to one basis point, but this is generally the case with most currency pairs.

PKR
In currencies, this is the abbreviation for the Pakistani Rupee.

PLN
In currencies, this is the abbreviation for the Polish Zloty.

Pre-Settlement Risk
The risk that one party of a contract will fail to meet the terms of the contract and default before the contract's settlement date, prematurely ending the contract. This type of risk can lead to replacement-cost risk.

For example, let's say ABC company forms a contract on the foreign-exchange market with XYZ company to swap U.S. dollars for Japanese yen in two years. If prior to settlement XYZ company goes bankrupt, it will be unable to complete the exchange and must default on the contract. ABC company will have to form a new contract with another party which leads to replacement-cost risk.

Purchasing Power Parity (PPP)
An economic theory that estimates the amount of adjustment needed on the exchange rate between countries in order for the exchange to be equivalent to each currency's purchasing power.

The relative version of PPP is calculated as:

$$S = \frac{P_1}{P_2}$$

Where:
"S" represents exchange rate of currency 1 to currency 2
"P_1" represents the cost of good "x" in currency 1
"P_2" represents the cost of good "x" in currency 2
In other words, the exchange rate adjusts so that an identical good in two different countries has the same price when expressed in the same currency.

For example, a chocolate bar that sells for C$1.50 in a Canadian city should cost US$1.00 in a U.S. city when the exchange rate

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between Canada and the U.S. is 1.50 USD/CDN. (Both chocolate bars cost US$1.00.)

PYG
In currencies, this is the abbreviation for the Paraguay Guarani.

QAR
In currencies, this is the abbreviation for the Qatar Riyal.

Quanto Swap
A swap with varying combinations of interest rate, currency and equity swap features, where payments are based on the movement of two different countries' interest rates. This is also referred to as a differential or "diff" swap.

Though they deal with two different currencies, payments are settled in the same currency. For example, a typical quanto swap would involve a U.S. investor paying six-month LIBOR in U.S. dollars (for a US$1 million loan), and receive payments in U.S. dollars at the six-month EURIBOR + 75 basis points.

Fixed-for-floating quanto swaps allow an investor to minimize foreign exchange risk. This is achieved by fixing both the exchange rate and interest rate at the same time. Floating-for-floating swaps have slightly higher risk, since each party is exposed to the spread between each country's currency interest rate.

Quote Currency
The second currency quoted in a currency pair in forex. In a direct quote, the quote currency is the foreign currency. In an indirect quote, the quote currency is the domestic currency.

Also known as the "secondary currency" or "counter currency".
Understanding the quotation and pricing structure of currencies is essential for anyone wanting to trade currencies in the forex market. If you were looking at the CAD/USD currency pair, the U.S. dollar would be the quote currency, and the Canadian dollar would be the base currency.

Major currencies that are usually shown as the quote currency include the U.S. dollar, the British pound, the euro, the Japanese yen, the Swiss franc and the Canadian dollar.

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Real Effective Exchange Rate (REER)

The weighted average of a country's currency relative to an index or basket of other major currencies adjusted for the effects of inflation. The weights are determined by comparing the relative trade balances, in terms of one country's currency, with each other country within the index.

This exchange rate is used to determine an individual country's currency value relative to the other major currencies in the index, as adjusted for the effects of inflation. All currencies within the said index are the major currencies being traded today: U.S. dollar, Japanese yen, euro, etc.

This is also the value that an individual consumer will pay for an imported good at the consumer level. This price will include any tariffs and transactions costs associated with importing the good.

Redenomination

The process whereby a country's currency is recalibrated due to significant inflation and currency devaluation. Certain currencies have been redenominated a number of times over the last century for various reasons.

For example, the Bulgarian lev was redenominated due to inflation arising at the end of the Second World War. After the redenomination, one "new" lev was equal to 100 "old" levs. The lev was redenominated three times in the twentieth century.

Repatriation

The process of converting a foreign currency into the currency of one's own country. The amount that the investor will receive depends on the exchange rate between the two currencies being traded at the settlement time.

For example, if you are American, converting British pounds back to U.S. dollars is an example of repatriation. If the pound were held by a British financial institution, the dollars would be called eurodollars, therefore, when converting those eurodollars back to dollars, the investor would be exposed to foreign exchange risk.

Reserve Currency

A foreign currency held by central banks and other major financial institutions as a means to pay off international debt obligations, or to influence their domestic exchange rate.

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Currently, the U.S. dollar is the primary reserve currency used by other countries. A very large percentage of commodities such as gold and oil are usually priced in U.S dollars, causing other countries to hold this currency to pay for these goods. A large debate still continues about whether or not the U.S. dollar will stay the main reserve currency or if it will shift over to the euro.

Revaluation

A calculated adjustment to a country's official exchange rate relative to a chosen baseline. The baseline can be anything from wage rates to the price of gold to a foreign currency. In a fixed exchange rate regime, only a decision by a country's government (i.e. central bank) can alter the official value of the currency. Contrast to "devaluation".

For example, suppose a government has set 10 units of its currency equal to one U.S. dollar. To revalue, the government might change the rate to five units per dollar. This would result in that currency being twice as expensive to people buying that currency with U.S. dollars than previously and the U.S. dollar costing half as much to those buying it with foreign currency.

Before the Chinese government revalued the yuan, it was pegged to the U.S. dollar. It is now pegged to a basket of world currencies.

Revaluation Rates

Market currency rates from a specific point in time that are used as a base value by currency traders to assess whether a profit or a loss has been realized for the day. In most cases, the revaluation rate is the closing rate for the previous trading day.

For example, in order to assess how much profit a currency trader made today, he or she would use yesterday's closing rate (today's revaluation rate) of 1.15 USD/CAD as a baseline for comparing today's closing rate of 1.145 USD/CAD. If the trader shorts the U.S. dollar in early trading and then buys it back at the end of the day, he or she will make $0.005 for every U.S. dollar traded.

RON

In currencies, this is the abbreviation for the Romanian New Leu.

RUB

In currencies, this is the abbreviation for the Russian ruble.

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SAR
In currencies, this is the abbreviation for the Saudi Riyal.

SBD
In currencies, this is the abbreviation for the Solomon Islands Dollar

SCR
In currencies, this is the abbreviation for the Seychelles Rupee.

SDD
In currencies, this is the abbreviation for the Sudanese Dinar.

SDP
In currencies, this is the abbreviation for the Sudanese Pound

Seigniorage
The difference between the value of money and the cost to produce it - in other words, the economic cost of producing a currency within a given economy or country. If the seigniorage is positive, then the government will make an economic profit; a negative seigniorage will result in an economic loss.

Seigniorage may be counted as revenue for a government when the money that is created is worth more than it costs to produce it. This revenue is often used by governments to finance a portion of their expenditures without having to collect taxes. If, for example, it costs the U.S. government $0.05 to produce a $1 bill, the seigniorage is $0.95, or the difference between the two amounts.

SEK
In currencies, this is the abbreviation for the Swedish Krona.

Settlement Period
The period of time between the settlement date and the transaction date that is allotted to the parties of a transaction to satisfy the transaction's obligations. The buyer must make payment within the settlement period, while the seller must deliver the purchased security within this period.

Depending on the type of security traded, the exact length of the settlement period will differ. The settlement period is often quoted as T+1, T+2 or T+3; which means the transaction date plus one, two or three days.

For stocks, the settlement period is three days (T+3) after the

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transaction. This means that the buyer must transfer cash to the seller, and the seller must transfer ownership of the stock to the buyer within three days after the trade was made.

For certificates of deposit and commercial paper, the transaction must be settled on the same day. For U.S. treasuries, it is the next day (T+1), and forex transactions are settled two days after (T+2).

Settlement Risk
The risk that one party will fail to deliver the terms of a contract with another party at the time of settlement. Settlement risk can be the risk associated with default at settlement and any timing differences in settlement between the two parties. This type of risk can lead to principal risk.

Settlement risk is the possibility your counter party will never pay you. Settlement risk was a problem in the forex market up until the creation of continuously linked settlement (CLS), which is facilitated by CLS Bank International, which eliminates time differences in settlement, providing a safer forex market.

Settlement risk is sometimes called "Herstatt risk", named after the well-known failure of the German bank Herstatt. On Jun 26, 1974, the bank had taken in its foreign-currency receipts in Europe, but had not made any of its U.S. dollar payments when German banking regulators closed the bank down, leaving counter parties to incur the substantial losses.

SGD
In currencies, this is the abbreviation for the Singapore Dollar.

SHP
In currencies, this is the abbreviation for the St. Helana Pound

Single Payment Options Trading (SPOT)
A type of option product that allows an investor to set not only the conditions that need to be met in order to receive a desired payout, but also the size of the payout he or she wishes to receive if the conditions are met. The broker that provides this product will determine the likelihood that the conditions will be met and, in turn, will charge what it feels is an appropriate commission. This type of arrangement is often referred to as a "binary option" because only two types of payouts are possible for the investor:

1. The conditions set out by both parties occur, and the investor

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collects the agreed-upon payout amount.

2. The event does not occur and the investor loses the full premium paid to the broker.

This type of option product is often found in the forex market. For example, if a trader believes that the EUR/USD will not break below 1.20 in 14 days, he or she would pay a certain premium to a broker and then collect the agreed upon payout in 14 days if this scenario turns out to be accurate. However, if the EUR/USD does break below 1.20, the investor will lose the full amount of the premium.

SIT
In currencies, this is the abbreviation for the Slovenian Tolar.

SKK
In currencies, this is the abbreviation for the Slovak Koruna.

SLL
In currencies, this is the abbreviation for the Sierra Leone Leone.

SLR
In currencies, this is the abbreviation for the Sri Lankan rupee.

Soft Currency
Another name for "weak currency". The values of soft currencies fluctuate often, and other countries do not want to hold these currencies due to political or economic uncertainty within the country with the soft currency.

Currencies from most developing countries are considered to be soft currencies. Often, governments from these developing countries will set unrealistically high exchange rates, pegging their currency to a currency such as the U.S. dollar.

SOS
In currencies, this is the abbreviation for the Somali Shilling.

Sovereign Risk
The risk that a foreign central bank will alter its foreign-exchange regulations thereby significantly reducing or completely nulling the value of foreign-exchange contracts.

This is one of the many risks that an investor faces when holding forex contracts. Additionally an investor is exposed to interest-rate risk, price

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risk and liquidity risk amongst others.

Special Drawing Rights (SDR)
An international type of monetary reserve currency, created by the International Monetary Fund (IMF) in 1969, which operates as a supplement to the existing reserves of member countries. Created in response to concerns about the limitations of gold and dollars as the sole means of settling international accounts, SDRs are designed to augment international liquidity by supplementing the standard reserve currencies.

You can think of SDRs as an artificial currency used by the IMF and defined as a "basket of national currencies". The IMF uses SDRs for internal accounting purposes. SDRs are allocated by the IMF to its member countries and are backed by the full faith and credit of the member countries' governments.

Speculator
A person who trades derivatives, commodities, bonds, equities or currencies with a higher-than-average risk in return for a higher-than-average profit potential. Speculators take large risks, especially with respect to anticipating future price movements, in the hope of making quick, large gains.

Speculators are typically sophisticated, risk-taking investors with expertise in the market(s) in which they are trading and will usually use highly leveraged investments such as futures and options.

Spot Exchange Rate
The rate of a foreign-exchange contract for immediate delivery. Also known as "benchmark rates", "straightforward rates" or "outright rates", spot rates represent the price that a buyer expects to pay for a foreign currency in another currency.

Though the spot exchange rate is said to be settled immediately, the globally accepted settlement cycle for foreign-exchange contracts is two days. Foreign-exchange contracts are therefore settled on the second day after the day the deal is made.

Spot Trade
The purchase or sale of a foreign currency or commodity for immediate delivery. Spot trades are settled "on the spot", as opposed to at a set date in the future. Also known as "cash trades".

Futures transactions that expire in the current month are also known as

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spot trades because in the case that goods are actually delivered, delivery time is reasonably expected to take one month.

Spot trades are the opposite of futures contracts, which usually expire well before any physical delivery. Foreign-exchange contracts are the most common kinds of spot trades. If these kinds of contracts are not settled immediately, traders would expect to be compensated for the time value of their money for the duration of the delivery. Because these contracts are settled electronically, the forex market is essentially instantaneous.

SRD
In currencies, this is the abbreviation for the Suriname Dollar.

STD
In currencies, this is the abbreviation for the Sao Tome/Principe Dobra.

Sterilization
A form of monetary action in which a central bank or federal reserve attempts to insulate itself from the foreign exchange market to counteract the effects of a changing monetary base. The sterilization process is used to manipulate the value of one domestic currency relative to another, and is initiated in the forex market.

For example, to weaken the U.S. dollar against another currency, the Fed would sell more U.S. dollars and buy the foreign currency. The increased supply of the U.S. dollar would lower the value of the currency. The Fed would do the opposite if it wanted to strengthen the U.S. dollar.

Sterilized Intervention
A method used by monetary authorities to equalize the effects of foreign exchange transactions on the domestic monetary base by offsetting the purchase or sale of domestic assets within the domestic markets. The process limits the amount of domestic currency available for foreign exchange.

Sterilized intervention is a way for a country to alter its debt composition without affecting its monetary base. It is used to counter undesirable exchange-rate movements. For example, a decrease in the value of a country's domestic currency would cause a debt instrument issued in a foreign country and denominated in that foreign country's currency to be made more expensive.

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SVC
In currencies, this is the abbreviation for the El Salvador Colon.

Swissie
A slang term for the Swiss franc. The Swiss franc, or Swissie, has often been considered a safe-haven currency during times of geopolitical unrest. This is mainly due to the country's neutral stance in global conflicts.

For example, one may hear in a news report that the Swissie was down in today's trading. This is similar to the U.S., where the dollar is referred to as the "greenback", Canada, where the dollar is called a "loonie" and New Zealand, where the dollar is called a "kiwi".

SYP
In currencies, this is the abbreviation for the Syrian Pound.

SZL
In currencies, this is the abbreviation for the Swaziland Lilangeni.

Take-Profit Order (T/P)
An order used by currency traders specifying the exact rate or number of pips from the current price point where to close out their current position for a profit. The rate deemed to be the level where the trader wants to take a profit is sometimes referred to as the "take-profit point".

As the name suggests, take-profit orders are used to lock in profits in the event the rate moves in a favorable direction. For example, if you are long a currency pair position and believe the price will rise to a certain level, but are unsure what it will do beyond that level, placing a take-profit order at that point will automatically close out your position allowing you to lock in profit.

*Example: Buy $100 worth of yen at 107.4 yen per dollar = 100*107.40 = 10,740 yen*
Place a take-profit order at 108.80.
Price then rises from 107.40 to 108.80
Take-profit order automatically executed to sell $100 and buy 10,880 yen
Profit of 140 yen realized.

Temporal Method
A method of foreign currency translation that uses exchange rates based on the time assets and liabilities are acquired or incurred. The exchange rate used also depends on the method of valuation that is

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used. Assets and liabilities valued at current costs use the current exchange rate and those that use historical exchange rates are valued at historical costs.

By using the temporal method, any income-generating assets like inventory, property, plant and equipment are regularly updated to reflect their market values. The gains and losses that result from translation are placed directly into the current consolidated income. This causes the consolidate earnings to be rather volatile.

THB
In currencies, this is the abbreviation for the Thai Baht.

Thin Market
A market with a low number of buyers and sellers. Since few transactions take place in a thin market, prices are often more volatile and assets are less liquid. The low number of bids and asks will also typically result in a larger spread between the two quotes. Also known as a "narrow market".

A thin market has high price volatility and low liquidity. If supply or demand changes abruptly, resulting in more buyers than sellers or vice versa, there will typically be a material impact on prices. Since few bids and asks are quoted, potential buyers and sellers may find it difficult to transact in a thin market.

TND
In currencies, this is the abbreviation for the Tunisian Dinar.

Tomorrow Next (Tom Next)
In currency transactions, the purchase and sale of a currency made to avoid taking actual delivery of the currency. The current position is closed out at the daily close rate and re-entered at the new opening rate the next trading day. Also referred to as "tomorrow next procedure".

In most currency trades, delivery is two days after the transaction date. Tomorrow-next trades arise because most currency traders are speculators and have no intention of taking delivery of the currency. If a trader buys and closes out his or her currency position the same business day, there isn't a problem with delivery. But traders who wish to hold their position over the current business day and have no intention of accepting delivery of the currency would use tomorrow-next procedures: the position is closed out that business day at a closing rate, and then the position is re-established the following day. This

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allows the trader to hold the position for that day without worrying about delivery.

TOP
In currencies, this is the abbreviation for the Tonga P'anga

Transaction Exposure
The risk, faced by companies involved in international trade, that currency exchange rates will change after the companies have already entered into financial obligations. Such exposure to fluctuating exchange rates can lead to major losses for firms.

Often, when a company identifies such exposure to changing exchange rates, it will choose to implement a hedging strategy, using forward rates to lock in an exchange rate and thus eliminate the exposure to the risk.

Transaction Risk
The exchange rate risk associated with the time delay between entering into a contract and settling it. The greater the time differential between the entrance and settlement of the contract, the greater the transaction risk, because there is more time for the two exchange rates to fluctuate.

Transaction risk creates difficulties for individuals and corporations dealing in different currencies, as exchange rates can fluctuate significantly over a short period of time. This volatility is usually reduced, or hedged, by entering into currency swaps and other similar securities.

TRL
In currencies, this is the abbreviation for the Turkish New Lira.

TTD
In currencies, this is the abbreviation for the Trinidad & Tobago Dollar.

TWD
In currencies, this is the abbreviation for the Taiwan Dollar.

Two-Way Quote
A type of quote that gives both the bid and the ask price of a security, informing would-be traders of the current price at which they could buy or sell the security. The two-way quote also shows the spread between the bid and the ask, giving traders an idea of the current liquidity in the security (a smaller spread indicates more liquidity).

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This type of quote provides more information to users than a last-trade quote, which quotes only the price at which the security last traded.

An example of a two-way quote would be: Citigroup quote of $52.50/$53.30.
This tells traders they can currently purchase Citigroup shares for $53.30 or sell them for $52.50. The spread between the bid and the ask is $0.80 ($53.30-$52.50).

TZS
In currencies, this is the abbreviation for the Tanzanian Shilling.

U.S. Dollar Index (USDX)
A measure of the value of the U.S. dollar relative to majority of its most significant trading partners. This index is similar to other trade-weighted indexes, which also use the exchange rates from the same major currencies.

Currently, this index is calculated by factoring in the exchange rates of six major world currencies: the euro, Japanese yen, Canadian dollar, British pound, Swedish krona and Swiss franc. This index started in 1973 with a base of 100 and is relative to this base. This means that a value of 120 would suggest that the U.S. dollar experienced a 20% increase in value over the time period.

It is possible to incorporate futures or options strategies on the USDX. These financial products currently trade on the New York Board Of Trade.

UAH
In currencies, this is the abbreviation for the Ukraine Hryvnia.

UGX
In currencies, this is the abbreviation for the Uganda Shilling

Uncovered Interest Rate Parity (UIP)
A parity condition stating that the difference in interest rates between two countries is equal to the expected change in exchange rates between the countries' currencies. If this parity does not exist, there is an opportunity to make a profit.

$$(i_1 - i_2) = E(e)$$

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"i_1" represents the interest rate of country 1
"i_2" represents the interest rate of country 2
"E(e)" represents the expected rate of change in the exchange rate

For example, assume that the interest rate in America is 10% and the interest rate in Canada is 15%. According to the uncovered interest rate parity, the Canadian dollar is expected to depreciate against the American dollar by approximately 5%. Put another way, to convince an investor to invest in Canada when its currency depreciates, the Canadian dollar interest rate would have to be about 5% higher than the American dollar interest rate.

Unsterilized Foreign Exchange Intervention
An attempt by a country's monetary authorities to influence exchange rates and its money supply by not buying or selling domestic or foreign currencies or assets. This is a passive approach to exchange rate fluctuations, and allows for fluctuations in the monetary base.
If the central bank purchases domestic currency by selling foreign assets, the money supply will shrink because it has removed domestic currency from the market; this is an example of a sterilized policy. An unsterilized policy allows for the foreign-exchange markets to function without manipulation of the supply of the domestic currency; therefore, the monetary base is allowed to change.

USD
In currencies, this is the abbreviation for the U.S. dollar.

UYU
In currencies, this is the abbreviation for the Uruguayan Peso.

VEB
In currencies, this is the abbreviation for the Venezuelan Bolivar.

VND
In currencies, this is the abbreviation for the Vietnamese Dong

VUV
In currencies, this is the abbreviation for the Vanuatu Vatu.

WST
In currencies, this is the abbreviation for the Samoan Tala.

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Xenocurrency
A currency that trades in markets outside of its domestic borders. "Xeno" is a prefix meaning foreign or strange.

An example of a xenocurrency is the Chinese yuan when it is traded in the United States. When currency is deposited by national governments or corporations in banks outside their home market, it is sometimes referred to as a "eurocurrency" (this applies to any currency and to banks in any country).

Yard
Slang for one billion units in currency.

The term also refers to "milliard," which is a European term for 1,000 million (a billion).

If a person wanted to buy one billion U.S. dollars, he or she might say, "I would like to buy a yard of U.S. dollars." By using the word "yard" in place of "billion," the person ensures that the counter-party will not misunderstand billion for "million" or "trillion."

ZAR
In currencies, this is the abbreviation for the South African Rand.

ZMK
In currencies, this is the abbreviation for the Zambian Kwacha.

ZWD
In currencies, this is the abbreviation for the Zimbabwe Dollar.

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