

## Unit-I

### Lecture-9

#### **Foreign exchange market**

Foreign exchange market is a market for buying and selling foreign currencies. It is a global online network where currencies of different countries are bought and sold. The foreign exchange market determines the exchange rate for currencies around the world. This market is also termed as Currency, FX, or forex market. Its structure comprises of individuals, firms, commercial banks, the central banks, importers and exporters, investors, brokers, immigrants, tourists. The foreign exchange market is a system and does not have any physical location. This market operates 24 hours a day from 5 p.m. EST on Sunday to 4 p.m. EST on Friday. It is the world's most liquid financial market. The trading of currencies in the foreign exchange market always takes place in pairs so that the value of one of the currencies in that pair is relative to the value of others. This global market has two tiers. The first one is known as the interbank market and the second one is known as the over-the-counter market.

The interbank market is the one where bigger banks trade and exchange currencies with each other. Over the counter market is the one where individuals and companies trade and has become a very popular market as now there are several companies that provide online trading platforms.

#### **Features of the foreign exchange market**

##### **High Liquidity**

The foreign exchange market is the most liquid financial market in the world. It involves the trading of various currencies across the globe. All traders in this market are free to buy or sell currencies anytime as per their choice. They are free to exchange currencies without prices of currencies being traded getting affected. Currencies prices remain the same both at the time of order placed and executed thereby enabling to earn the expected prices.

##### **Market Transparency**

Trader in the foreign exchange market has full access to all market data and information. They can easily monitor different countries' currencies price fluctuations through real-time portfolio and account tracking without the need of a broker. All this information helps in making better trading decisions and control over investments.

##### **Dynamic Market**

The foreign exchange market is a dynamic market. In these markets, currency values change every second and hour. These values changes in accordance with changing forces of demand and supply which also helps in determining the exchange rates. Due to its fast-changing character, this market is termed as the perfect market to trade.

##### **Operates 24 Hours**

Foreign exchange markets function 24 hours a day. It provides a platform where currencies can be traded anytime by traders. It provides a convenient time to all necessary adjustments when and wherever needed.

**Lower Trading Cost**

The forex market has a very low trading cost. In these markets, there are no commissions like in case of any other investments. Any difference between buying and selling prices of currencies is the only cost of trading in the forex market. As there are low costs then the possibility of incurring losses is also minimum thereby making it possible for small investors to make good profit from trading.

**Dollar Most Widely Traded**

The dollar is the most dominant currency in the foreign exchange market. This currency is paired with every country's currency being traded in the forex market. In a major proportion of transactions every day, the dollar is one of the two currencies being traded.