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Insights of Forex Markets
Perspectives and Possibilities of Centralized Electronic Trading Exchange.

K. Subhash
Bachelor of Technology
GITAM University, Hyderabad.

Abstract:
Forex markets are one of the most important, yet often disregarded part of the global economy.
This paper tries to bring out various technical anthologies that constitute Forex trading and elucidates the importance of forex trade and its effects on the markets all over the world. This paper also tries to inquire through various possibilities of automated Foreign exchange systems and investigates the merits and drawbacks of completely mechanized trading platforms that could replace the conventional methods in the near future.
Keywords: Forex, Markets, Automation, Trading,

Introduction:
Foreign exchange in simple terms is the exchange of the currency of one nation or a union, for the globally accepted equivalent value to another currency. Foreign exchange refers also to the international market where currencies are traded around the clock, implicitly in a virtual environment.
Commonly abbreviated as “Forex”, and occasionally also as “FX”, Foreign exchange has its largest trading centers in London, New York, Singapore and Tokyo. While the FX transactions include smaller transactions like currency conversions in the degree of thousands, they also deal with international payments made in billions, related to global financial institutes and corporate giants.
The Global Foreign Exchange Market is considered largest among the financial domain, with an average daily transaction volumes amounting to many trillions.
It is because of such huge transactions and market capacity, that Forex has earned a special place in financial domain, though its importance yet remains in disguise.

Delineations of Foreign Exchange Market:
Going ahead with the concept of Foreign Exchange Trading, the immediate question would be how and where the trade actually happens. To make the complications simpler, the FX Market is often alienated as the following.
Spot Markets- the most easily understood, yet arbitrary inconsistency are the trading avenues that have an immediate settlement from the counter party for a base currency against any foreign currency, upon a fixed amount. The complete transaction takes in a few hours, and is hence the quickest vogue of settlements among FX Markets. Known for their mercuriality, trading in spot markets is commonly governed by factors like the direction and speed of movement of the relative values of currency globally. Spot markets offer minor risk and involves lesser speculation compared to others of its kind.
Futures and Forward Markets, in similitude with the spot markets is a mutual agreement made between two parties on a fixed amount of FX for a fixed price, but at a later date-referred to as maturity date. Here, the settlement amount is negotiated among the dealing parties and the amount is fixed at the time of entering into an agreement. However, the final settlement happens only on or immediately after the maturity date. As either parties agree upon the terms and standards on mutual discussion, the conditions are custom-made for the participants of trade.

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Forex Market environment and its effects on World Economy

The instability and undeterminable physiognomy of the floating exchange rates in Forex is the key behind Currency fluctuations. This, in turn has a colossal impact on the trade markets in specific and world's economy at large. The fluctuations, generally referred to as corrections in the Currency exchange rates, are a cumulative consequences of various factors governing them, such as relative supply and demand of the currencies of two countries, the performance trends of a country as an economic entity, the speculations and foresights about inflations and interest rate differentials, capital flows, and other relevant technical contentions.

It is unsurprising, yet interesting to know that the effect of constant transmutations in Forex markets are disregarded by many, although the aftermath of the Fluctuations in this domain have a direct impact on the trade and economic sectors. This is predominantly because most of the transactions taking place in the contemporary economic world and financial markets deals with domestic currency.

However, the Forex markets play their part in steering interest rates, asset values, investment returns, employability and inflation, directly or periphrastically. This argument finds endorsements from various events that have occurred globally in the past.

Case Study: The Asian Financial Crisis of 1997

The Asian Financial Crisis of 1997-98 financial season is prominently considered to understand the brawny effects of volatility of FX markets. The start of Asian Crisis was marked by the financial collapse in Thailand, which led to the abatement of majority of the Asian Markets in a very duration of time.

The Thai Baht, the currency of Thailand faced such a prodigious slump, that the Government of Thailand had no option but to float the baht due to insufficiency of foreign currency to support the domestic currency peg to the U.S. dollar. It initially fell by 13.50% Initially, and ended the month at 23% lower. All the economic support programs that were announced were proved to be scanty and all foreign reserves were exhausted by the end of June 1997.

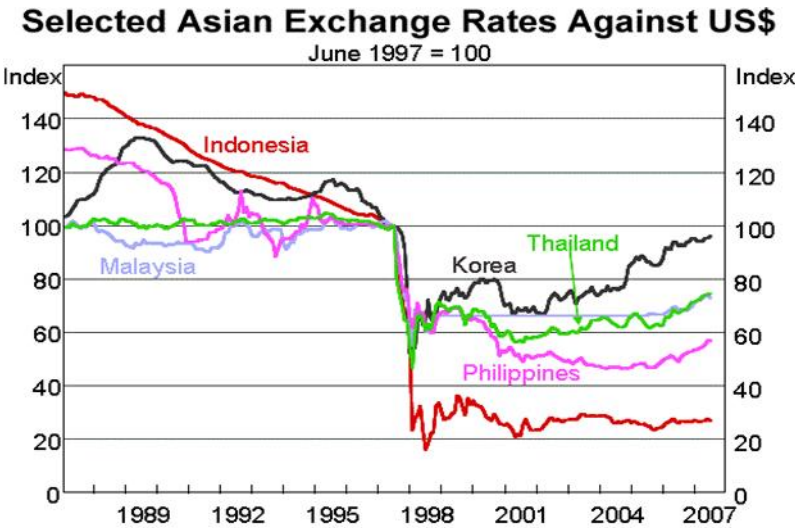

Fig. : Forex Rates of Asian Currencies (Source: Bloomberg; IMF)

This forced Thailand acquire a burden of foreign debt that slashed the country's economy and left it effectively bankrupt even before the domestic currency saw its termination.

As a continuation to this downfall, the ill effects were soon observed in the major Asian markets, starting from Southeast Asia and Japan, which witnessed a slide in the currency, devalued stock markets and other asset classes, private debts and financial fatigue.

The corporate and banking problems intensified in Korea and other parts of Southeast Asia. While the credit lined encountered severe cuts from the foreign lenders, Korea had to approach the IMF for assistance in meeting the Foreign currency compulsions.

Automated Forex Trading: A brief Introduction

The term automation is widening its scope in the contemporary world, especially in the field of Finance and Economy. Automated Forex Trading can be referred to as a method of trading foreign currencies in a virtual with a computer program that is based on a set of functional analyses that helps in the determination of trading functions using a predefined set of strategies and protocols.

Automated trading uses a software that the trader customizes according to the business or financial needs to make decisions based on a certain set of signals derived from technical analysis. The buy or sell decisions are taken by the automated programs as per the requirements and customs applied on it.

The origin of the concept of forex trade automation dates back to 1999, when the internet based companies created retail forex platforms to provide a customer friendly and faster mode of trading in a forex spot market. The automation of forex trade is usually considered to be of two distinct kinds, one where a completely automated system for forex trading is used, and the other is a signal based forex order generator, which enables manual execution of orders generated by a trading system with an algorithm built-in.

In completely automated setup, which is also termed as trading machine or black box trading, that executes orders based on certain algorithms based on its creator. The trading automation script is pre-validated various trade parameters such as lot size, risk factors, losses and profit delimiters, etc. This helps us have a centralized control over the flow of trade functions.

Automated forex trade environment can facilitate more number of trades per market than when traded manually. It is also capable of replicating the same across multiple markets through various time frames. One of the most important features is that it disregards the physiological swings, which often proves to be expensive in case of manual trading. Although automated trading has its merits, as a decentralized and unregulated market, it is always subject to illegal activities and fraudulent practices

Conclusion and Scope for Future Work

This paper aims at providing a brief conceptual exposure to various factors related to Forex Trading and the future scope of improvement in this domain. The case study adopted here gives us a glimpse of how Forex has its effect on the world's economy as a whole and how the global economy influences the fluctuations in the exchange rates of foreign currency. There is a lot of research to be done in the areas of Forex trade automation and centralization of Forex trade exchanges.

With the revolutionary changes happening at a great pace in the field of electronics and Information technology, automation of forex trading systems with centralized exchange would turn into a reality in the near future.

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