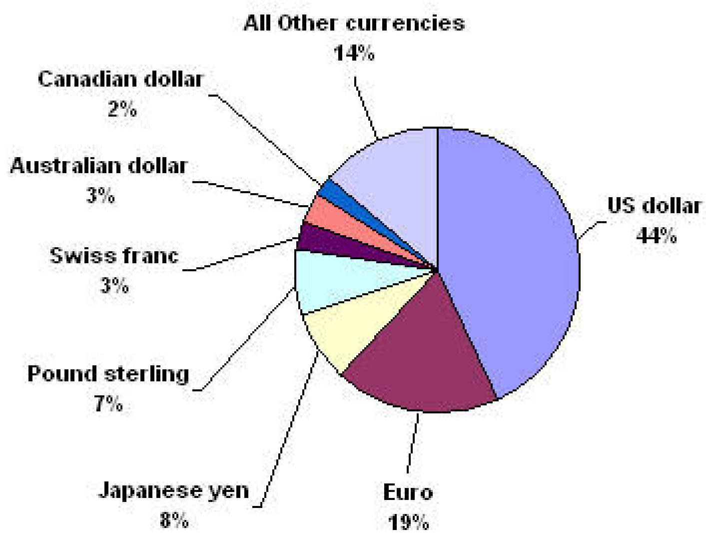
Currency Characteristics - US Dollar, Euro, Pound, and Yen and also the rest of ProAct's 9 pairs

Each of the major currencies has its own personality. Getting to know what goes into each of these personalities will better prepare you to take advantage of trends in the pairs.

Some currencies are heavily influenced by changes in interest rates, other currencies not so much. Some currencies are extremely sensitive to changes in commodity prices or even the winds of political change. Get to know each currency by studying its characteristics below.

We will first look at the 4 majors then the lesser currency pairs. Liquidity is a major factor in how the currency moves. The more liquidity the less volatile and the more the currency moves in harmony **without** SPIKES, WHIPSAWS and blazing breakouts.

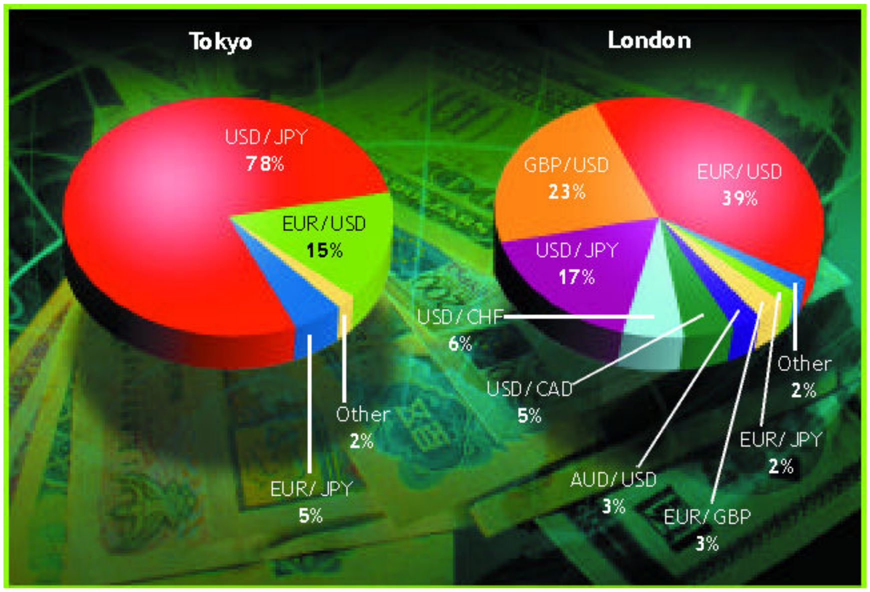
So first let's look at liquidity. The more a pair is traded the less the volatility.



Source: Triennial Central Bank Survey April 2007

You can see that based on the above – the most stable pair would be the EURUSD.

There are vast differences in which pairs are trading at what time, so you want to be trading a pair that has movement based on the market that is open at the time you are trading.



The Above graphic shows you that it is the YEN crosses that will produce opportunities in the Asian Market but the GBP and EUR crosses produce during the London (and also the NY)

- London: Trade them all
- Asian: All Yen Crosses and the follow through of the Australian (STAY OUT OF USD CROSSES)
- Australian: NZD and AUS crosses
- New York: Trade them all

USD - U.S. dollar

The USD is the world's reserve currency. Central banks hold many, many dollars for financial dealings and through the acquisition of assets. This makes the USD very sensitive to changes in interest rates.

The U.S. is a debtor nation, meaning that it must borrow a lot of capital to operate. This, too, makes the USD very sensitive to interest rates.

The U.S. consumes and consequently imports much more than it exports. The U.S. consistently runs a large trade deficit. The single most important import is energy, specifically crude oil. Rising oil prices typically result in a weaker USD.

The U.S. is a politically susceptible country. This exposes the USD to political risks such as changes in government and taxes. Additionally, the U.S. regularly flexes its military might around the globe, which can cause the USD to weaken when conflict erupts.

EUR - EURO

The EUR is extremely sensitive to changes in interest rates. That's because the EUR is emerging as a leading reserve currency, replacing the USD in most instances.

The EUR is equally sensitive to economic growth. The region typically lags the rest of the world in GDP growth, which can sometimes weaken the EUR. The EUR is supported by a vast collection of countries that oftentimes have differing monetary and political views. These differences often manifest in weakness in the EUR.

The European Union is frequently growing as more and more countries join. This has its advantages and disadvantages.

GBP - British pound

The GBP is one of the most highly valued currencies in the world because of the U.K.'s stable and reliable monetary policy. The GBP typically carries a relatively high interest rate. The U.K. economy relies heavily on consumer spending, which means the labor situation, retail sales, and housing data are all important statistics to consider when trading the GBP.

JPY - Japanese yen

The JPY is sensitive to changes in exchange rates because the rate is a huge exporter of manufactured goods. The Bank of Japan is notorious for managing the JPY because the country relies so heavily on exports to drive growth.

The country is quite small and short on natural resources. Naturally, Japan imports a great deal of its commodities including energy, metals, and other commodities.

The JPY is known for yielding a very low interest rate due to the sluggish domestic growth.

Currency Characteristics Summary

There are innumerable instances in which understanding a currency's characteristics can help you to spot opportunities in the Forex market. The more you know about the economies of each of the countries or regions, the better prepared you will be to spot opportunities in the Forex market. Take time to study the economies of these countries or regions.

Things to know:

What is a Whipsaw also called "whippy"? The tendency for a currency to whip in one direction and immediately turn and go back the other way. **VERY DANGEROUS FOR TRADERS!**

Breakouts? The tendency for a currency to "breakout" in a new direction. This is a prized trade setup. Some currencies have a tendency to do "false breakouts" which are **VERY DANGEROUS FOR NEW TRADERS!**

Consolidation? When the market stops moving in wider swings. A sign that markets are waiting for more information before more investment will happen. Usually precedes a breakout.

Squaring up? Actually means reducing or eliminating positions in one direction. The market does this at historical support and resistance area as well as Fibonacci zones.

Correlation? The ability for a currency to run the opposite way of a counterpart currency cross. Example: a high correlation is the EURUSD against the USDCHF – the almost always move the opposite way.

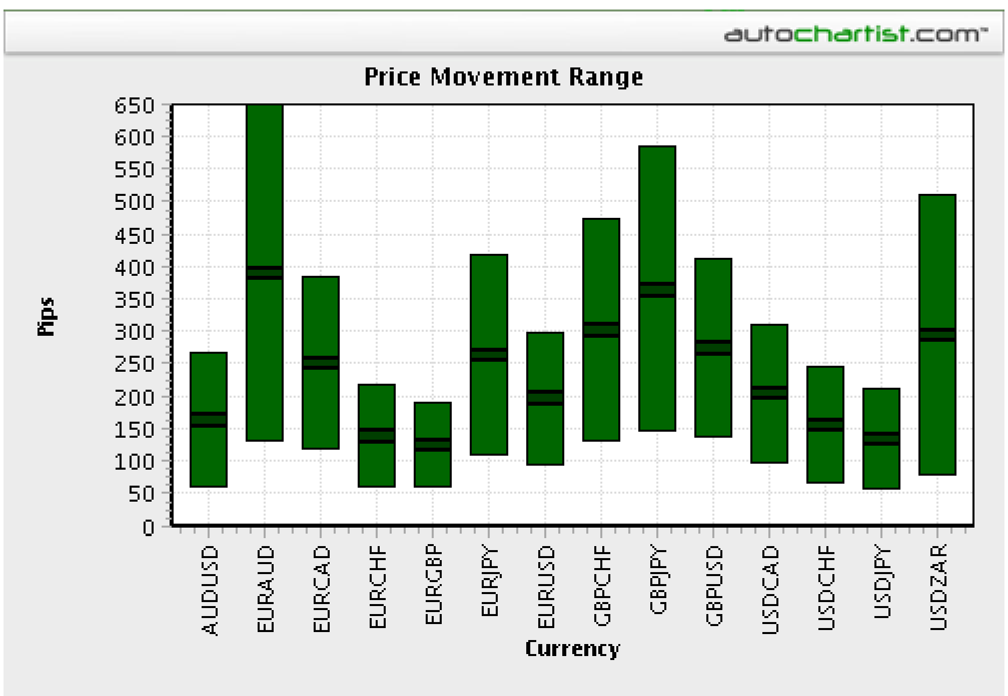
Here's a question we got that does not fit in anywhere: Why not to enter a trade at midnight if there is a good WC or other setup? What are the pros and cons of entering at that time? Yes, I know the big boys are only entering trades within the first 2-2 1/2 hours of each trading session, but sometimes when you don't enter the trade at midnight, by the time the London session is opened the best entry point has passed.

A. At one (1) AM USA time the Frankfort open happens. This market is dominated by the old Deutschmark traders which is the basis for the EURO. They have a lot of money, a lot of power in a *LOW LIQUIDITY* market. They typically move the currency the **OPPOSITE WAY** of the London but because of their power and low liquidity, the setups will always look perfect – especially coming out of the Asian which is a slower market anyway. Unfortunately, unless you are a skilled trader you are trading into a trap! This is why the Frankfort market is called the **"head fake".**

NOTE: The lower the liquidity the HIGHER THE SPREAD!!!!!

Here is a chart of price movement range courtesy of Autochartist.com as of 3/31/09

Autochartist is available to all ProAct and FXDD clients FREE,



The average number of pips that any currency moves per day is a product of a number of factors both fundamental and technical. PowerStat's **Pip Movement Ranges** offers valuable insight into a currency pair. The six month average along with area of probability, tells you not only the average but also the high and low extremes of each currency's potential for daily movement.

Volatility can come from a number of factors . all of which cannot possibly be determined in real time. It is precisely for this reason that historical tendencies are helpful when trying to determine how far a pair may move, higher or lower, within its historical trading range.

PowerStat's Pip Movement Ranges can supplement any trading plan. The typical pip movement of a pair offers a direct correlation to proper stop loss placement and lends accuracy to the prediction region. Any traders can supplement Autochartist Direct with PowerStats for a more complete perspective of potential chart pattern trade follow-through. For example, when trading chart patterns that have triggered, the pip movement range can help with determining the distance the market may travel. If a trader habitually finds that their profit targets are located in the higher end of the pip movement range, this could explain why targets may not be consistently reached. For traders who habitually find that they .leave profit on the table., the pip movement range can specifically point to the reason and allow a trader to move the profit target deeper within the range with the confidence that the placement is historically relevant.

Note: This is why we stress the 55 pip movement and the use of the HSI!

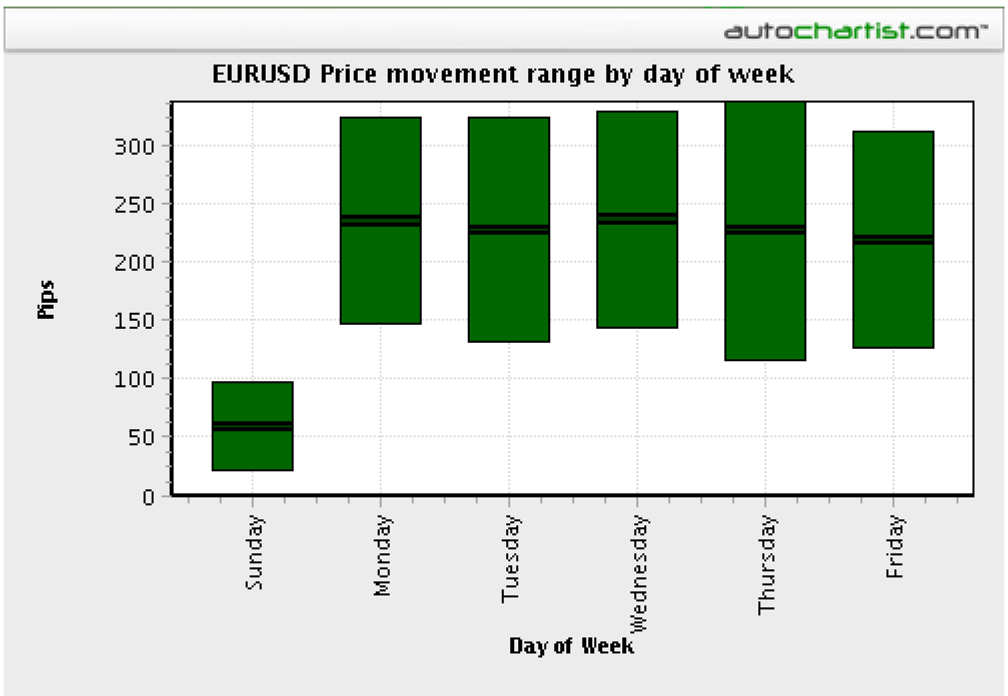
So here is a handy synopsis (note-which days they are best traded on):

EURUSD – the most stable pair in the world. It is very susceptible to geopolitical climates. It trends well, although not far due to its stability and tremendous liquidity. It is the Cross of choice for Professional Traders and unfortunately, due to the lower spread – all the crazies! That means in times when liquidity is low (between markets), the Pros are away and the Crazies are here.

Best traded: London and New York sessions. (sleeps in the Asian usually)

Liquidity: HIGH

Typical move to retrace: R3/S3 Typical move to target R5/S5



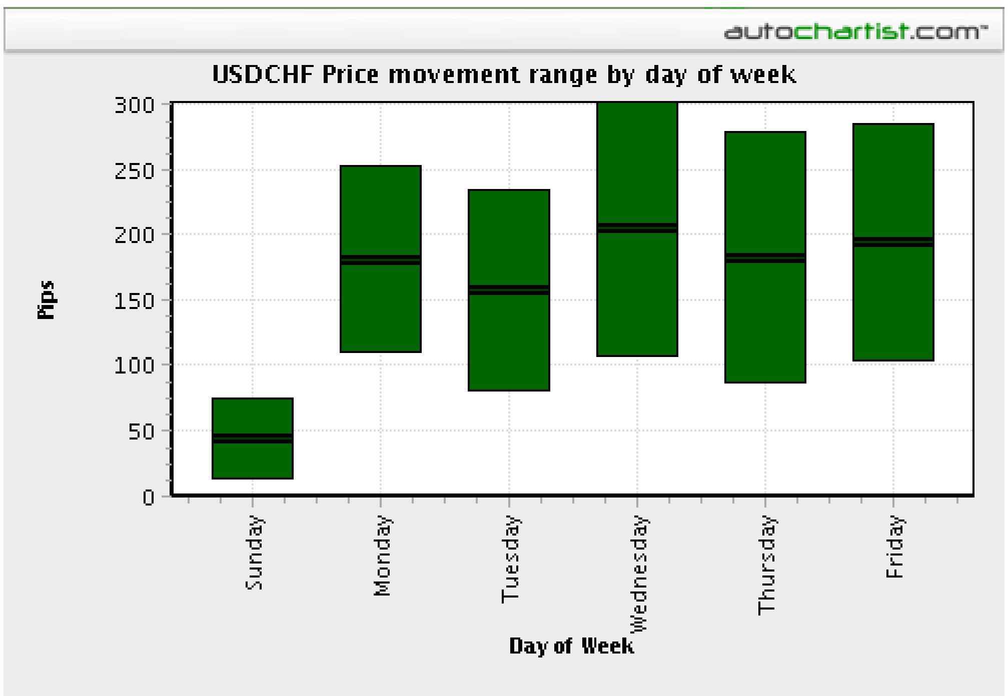
USDCHF – Almost always trades the opposite of the EURUSD. The "Swissy" is a safe haven currency, so in times of economic turmoil the CHF tends to be a buy. Trends well, Can trend 30% further then the EURUSD and has OK liquidity. Has the highest correlation to the EURUSD of any pair.

If you are in a EURUSD trade you should NEVER trade the USDCHF also since it is the same trade but in the opposite direction. In other words, if you lose on one – you will probably lose on BOTH!

Best traded: London and New York sessions. (sleeps in the Asian usually)

Liquidity: Medium

Typical move to retrace: R3/S3 Typical move to target R5/S5 – R6/S6



USDJPY – Has a mind of it's own. Sometimes trends with the EURUSD and sometimes the opposite. The "Yen" at times, is a safe haven currency, so in times of economic turmoil the JPY tends to be a buy. Has a good correlation to the EURUSD. Japan is a producer of goods that almost all go off the island so the price of it's currency can drastically effect the economy.

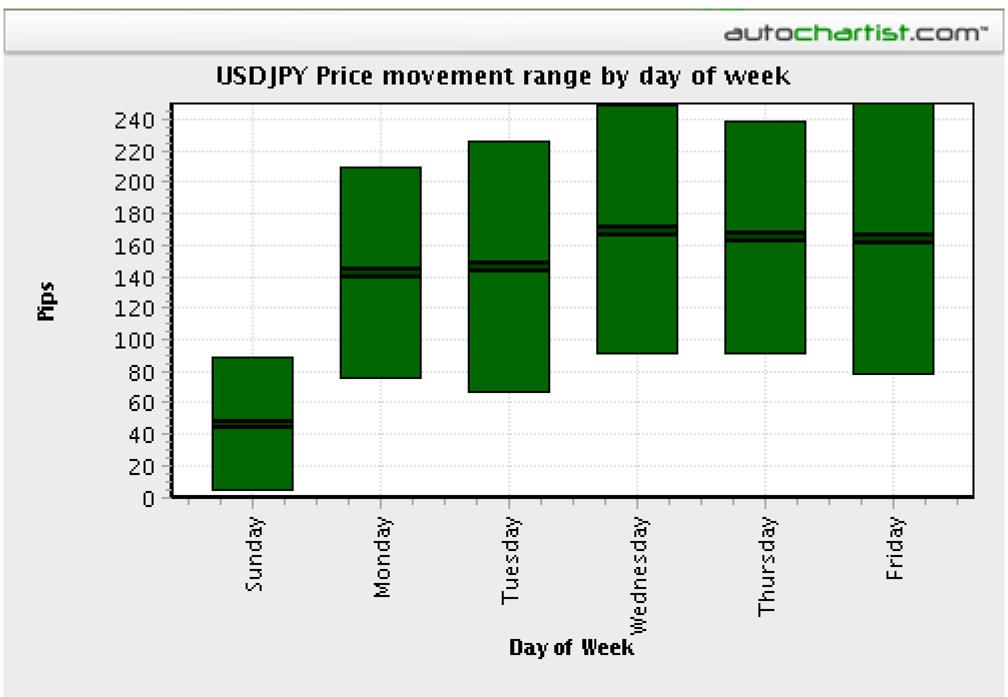
NOTE: Whatever way the YEN crosses move in the Asian Market they will 85+% of the time continue that move in the London. That means trades entered in the Asian should be left on through the London so that they hit the targets!

Has less movement on average then the EURUSD.

Best traded: Asian sessions.

Liquidity: HIGH in the Asian – moderate at other times

Typical move to retrace: R3/S3 Typical move to target R4/S4



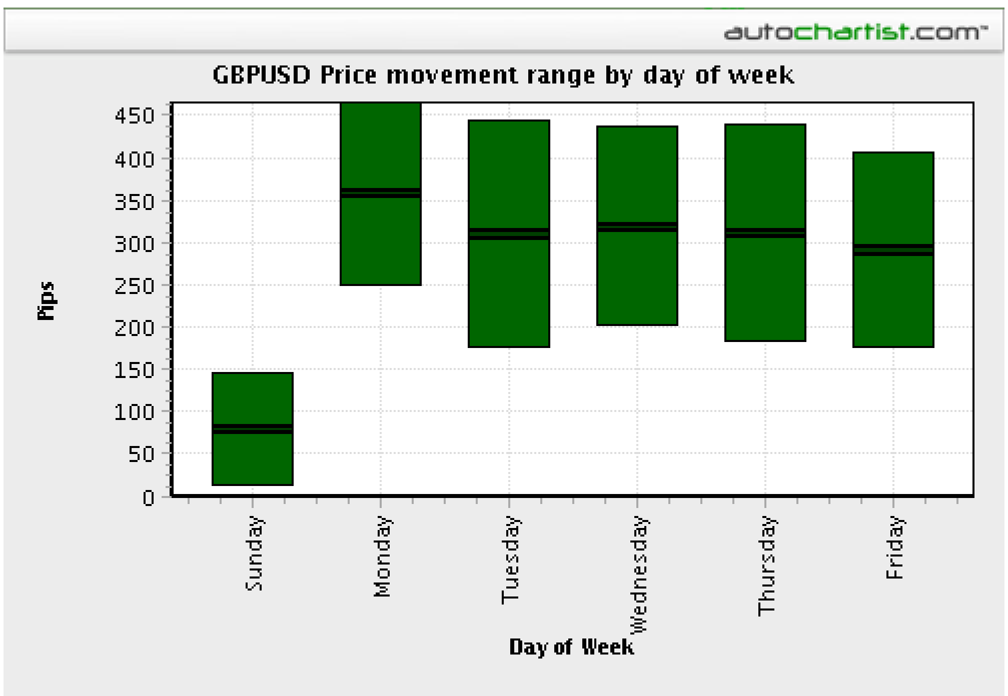
GBPUSD – Also called the "Sterling" and "Cable". Very volatile currency – NEW TRADERS SHOULD STAY OUT OF IT! Sometimes it trends with the EURUSD and sometimes the opposite. The "GBP" is the currency of choice during the London market. Very susceptible to news and any gyrations in the market since it is a European currency but not part of the EURO. Is typically a rock solid currency since they actually have all that silver backing it up.

Can easily run 100 pips against you and is known for it's whipsaws and the speed of it's runs.

Best traded: London and NewYork sessions.

Liquidity: HIGH

Typical move to retrace: R4/S4 Typical move to target R7/S7

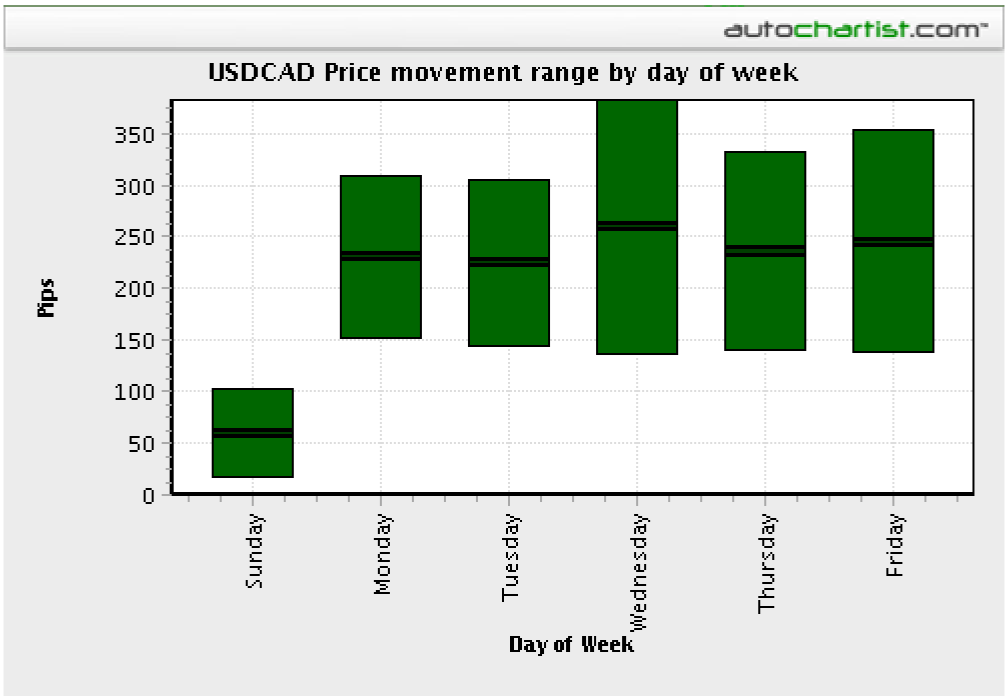


USDCAD – Also called the "Loonie". Very susceptible to the price of oil since it is the largest seller of oil to the USA. As oil prices go up, the USDCAD goes down. Unless you want to watch OIL charts in tandem with the Forex charts - this is probably not the cross for you.

Best traded: London and NewYork sessions.

Liquidity: low

Typical move to retrace: R3/S3 Typical move to target R5/S5



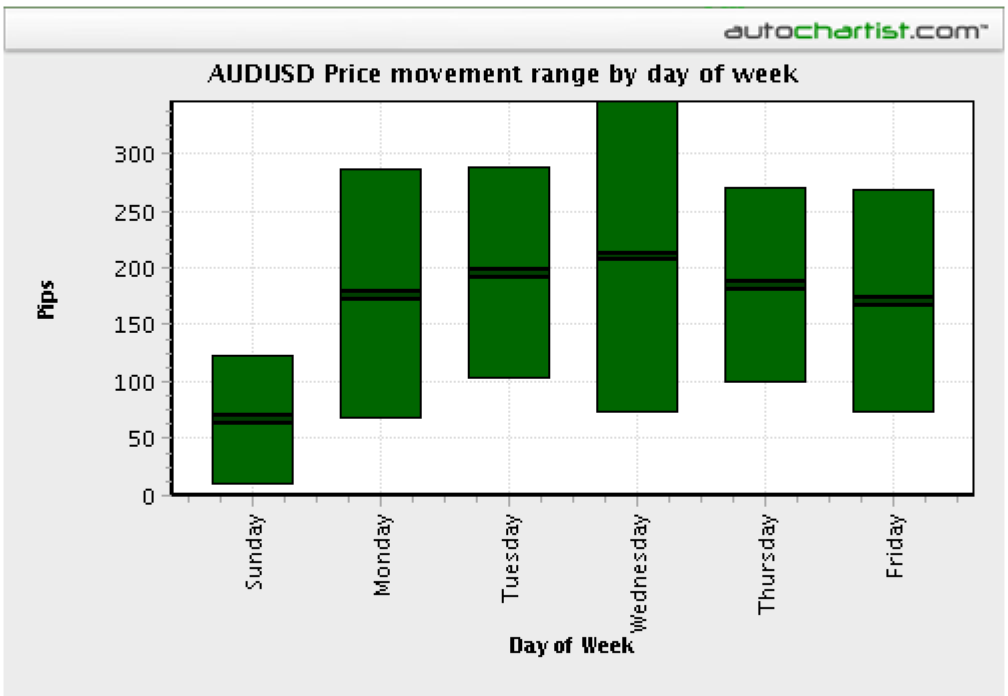
AUSUSD – Also called the "Kiwi". Has a very high interest rate and can sell all of its natural resources to China and has close proximity to it which means it is very stable in movements. Very low pip retrace usually 21-25 pips so stops hold well on it. This currency will not run far but ***will not run far against you!*** Loves the T3 for turns.

BEST CURRENCY FOR NEW TRADERS!!!!! Follows the EURUSD A LOT and has the same daily ranges!

Best traded: All sessions. Including the Aussie session at 4 pm EST.

Liquidity: Medium

Typical move to retrace: R3/S3 Typical move to target R5/S5



NZDUSD – Also called the "Kiwi". Has a very high interest rate and can also sell all of its natural resources to China and has close proximity to it which means it is very stable in movements. Since this is a bigger country the ranges are bigger as are the retracements. Also loves the T3 for turns. **A GOOD CURRENCY FOR NEW TRADERS!!!!! Follows the EURUSD A LOT.**

Best traded: All sessions. Including the Aussie session at 4 pm EST.

Liquidity: Medium

Typical move to retrace: R3/S3 Typical move to target R5/S5

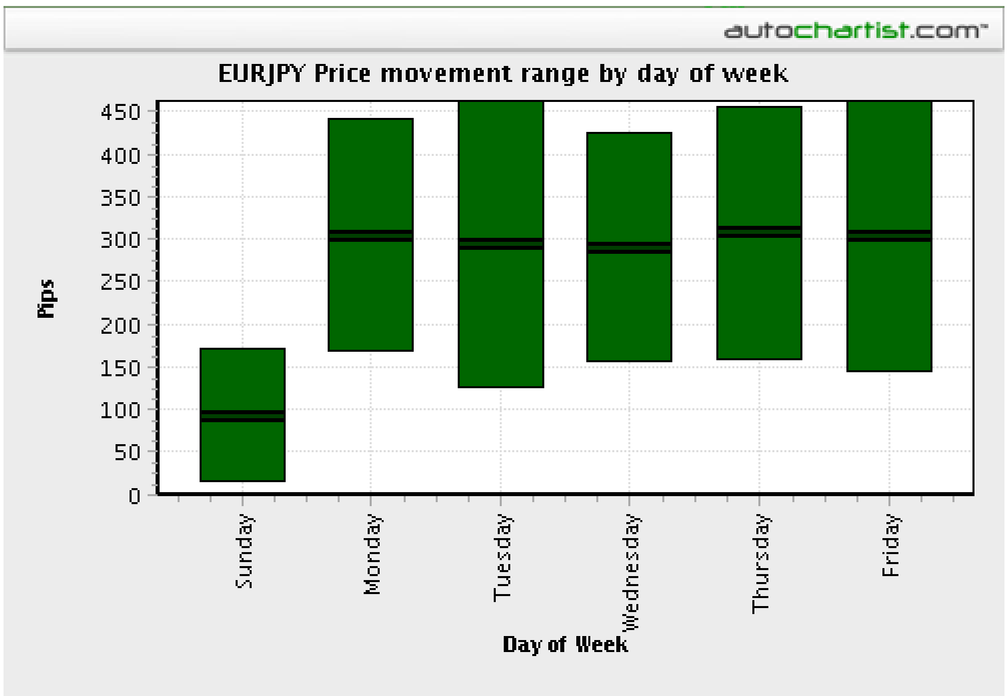
NO Autochartist Picture available.

EURJPY – Also called the "EJ". A very volatile Cross since it is made up of two of the biggest currency movers and has NOTHING TO DO WITH THE USD. Is a Bear Flag traders dream! Can follow the EURUSD and the USDJPY, which makes it difficult to follow when comparing currency moves. Almost always follows the GBPJPY. Can have big retracements but they come usually in the form of a Bear flag which makes them predictable. Moves the same almost every day except Sunday in terms of trading range.

Best traded: All sessions. Including the Aussie session at 4 pm EST.

Liquidity: Medium

Typical move to retrace: R3/S3 Typical move to target R6/S6-R7/S7



GBPJPY –One of the most volatile Cross's there is since it also is made up of two of the biggest currency movers and has NOTHING TO DO WITH THE USD. Can have trending runs up to 800 pips. Very Costly to enter since the spread is 8-9 pips. Can have big retracements and turns on a dime since only BIG BOYS trade this with precision. It is a Swing Traders (Royal Flush) dream. **SHOULD NEVER BE TRADED BY NEW OR EVEN INTERMEDIATE TRADERS!**

Best traded: All sessions. Including the Aussie session at 4 pm EST.

Liquidity: Low

Typical move to retrace: R5/S5 Typical move to target R7/S7-R8/S8

It is the reason the HSI has numbers to the R10/S10