Short data about the origin and development of the currency exchange market

Currency trading has a long history and can be traced back to the ancient Middle East and Middle Ages when foreign exchange started to take shape after the international merchant bankers devised bills of exchange, which were transferable third-party payments that allowed flexibility and growth in foreign exchange dealings.

The modern foreign exchange market characterized by periods of high volatility (that is a frequency and an amplitude of a price alteration) and relative stability formed itself in the twentieth century. By the mid-1930s the British capital London became to be the leading center for foreign exchange and the British pound served as the currency to trade and to keep as a reserve currency. Because in the old times foreign exchange was traded on the telex machines, or cable, the pound has generally the nickname “cable”.

After the World War II, where the British economy was destroyed and the United States was the only country unscarred by war, U.S. dollar, in accordance with the Breton Woods Accord between the USA, Great Britain and France (1944) became the reserve currency for all the capitalist countries and all currencies were pegged to the American dollar (through the constitution of currencies ranges maintained by central banks of relevant countries by means of the interventions or currency purchases). In turn, the U.S. dollar was pegged to gold at $35 per ounce. Thus, the U.S. dollar became the world's reserve currency. In accordance with the same agreement was organized the International Monetary Fund (IMF) rendering now a significant financial support to the developing and former socialist countries effecting economical transformation.

To execute these goals the IMF uses such instruments as Reserve trenches, which allows a member to draw on its own reserve asset quota at the time of payment, Credit trenches drawings and stand-by arrangements. The letters are the standard form of IMF loans unlike of those as the compensatory financing facility extends financial help to countries with temporary problems generated by reductions in export revenues, the buffer stock financing facility which is geared toward assisting the stocking up on primary commodities in order to ensure price stability in a specific commodity and the extended facility designed to assist members with financial problems in amounts or for periods exceeding the scope of the other facilities.

At the end of the 70-s the free-floating of currencies was officially mandated that became the most important landmark in the history of financial markets in the XX century lead to the formation of Forex in the contemporary understanding. That is the currency may be traded by anybody and its value is a function of the current supply and demand forces in the market, and there are no specific intervention points that have to be observed. Foreign exchange has experienced spectacular growth in volume ever since currencies were allowed to float freely against each other. While the daily turnover in 1977 was U.S. $5 billion, it increased to U.S. $600 billion in 1987, reached the U.S. $1 trillion mark in September 1992, and stabilized at around $1.5 trillion by the year 2000.

Main factors influences on this spectacular growth in volume are mentioned below. A significant role belonged to the increased volatility of currencies rates, growing mutual influence of different economies on bank-rates established by central banks, which affect essentially currencies exchange rates, more intense competition on goods markets and, at the same time, amalgamation of the corporations of different countries, technological revolution in the sphere of the currencies trading. The latter exposed in the development of automated dealing systems and the transition to the currency trading by means of the Internet. In addition to the dealing systems, matching systems simultaneously connect all traders around the world, electronically duplicating the brokers' market.

Advances in technology, computer software, and telecommunications and increased experience have increased the level of traders' sophistication, their ability to both generate profits and properly handle the exchange risks. Therefore, trading sophistication led toward volume increase.

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