Analysis a Forex Quote for New Traders

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Total new traders to the foreign exchange market can find analysis a Forex quite intimidating (even baffling) at first. In reality, this is the most frequent initial hurdle. The quote is brief, but it packs in a great deal of helpful information. And although it doesn't make a lick of sense to a newcomer, here's a quick, simple explanation of what it means.

A Forex quote is permanently based on a pair of currencies, where you're at once selling one currency and buying another. And there are two prices, one for selling and the other for buying (bid price and ask price). As reading a Forex quote, it might typically look like this: USD/JPY 106.52/56

The first currency is called the base currency and the other is the quote currency. The base currency value is permanently 1 (in this case 1 US dollar). The number in the quote tells you how many of the quote currency (Japanese yen) you can buy with one US dollar.

And that number - 106.52/56 - is a shortened version of two numbers (106.52 and 106.56). The lower number is the bid price; the other is the ask price. The bid price shows how much a dealer will purchase the base currency for. The ask price shows how much a dealer is willing to sell it for.

If you saw 106.52/56 after reading a Forex quote, it would mean that you could sell US dollars and receive 106.52 yen per dollar. On the other hand, if you wanted to buy US dollars, you would have to pay 106.56 yen for each dollar.

The difference between the bid price and the ask price in a Forex quote is called the "spread," and each tiny 0.01 unit is called a "pip." In our example, the spread for our USD/JPY quote is four pips. The spread for the most commonly traded currencies is usually that small. In all-purpose, you'll do most of your trading in US dollars, Japanese yen, Great Britain pounds, Euros, Swiss francs or Australian dollars. Furthermore please keep in mind that when the competition really heats up some spreads will be as small as one pip.

On the other hand, for a reduced amount of heavily traded currencies, you could run into much larger spreads. But don't think that a small spread means tiny profits (or losses). As you're trading hundreds of thousands of units, even that one pip spread can mean big money.

Let's say you're dealing with merely 100 US dollars. Selling your hundred dollars for 10,652 yen and buying them for 10,656 yen only amounts to a four yen difference. But most Forex traders will be dealing with amounts of 100,000 US dollars (or many multiples). So now we know, when reading a Forex quote, that even such an unimpressive little four-pip spread amounts to considerably more (at 4,000 yen, and probably several multiples of that).

And of course, similar trades could be repeated during the day and the week. This means that anytime you're reading a Forex quote, you'll recognize that this tiny little spread is extra important than its meager size at first suggests.

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