



# GELDEX INVEST

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# Market Mechanism



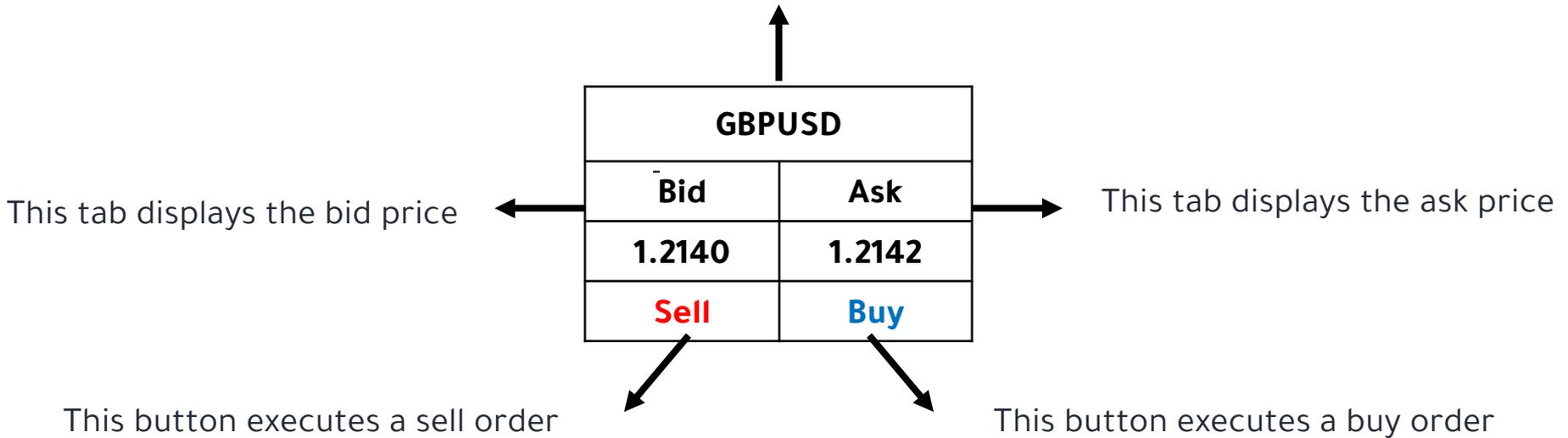


# FOREX Quotes

Currency pairs have bid and ask prices

No last or closing price

This tab displays the currency pair



# What is a Pip

'Price Interest Point' or 'Percentage in Point'  
Smallest measure of a price move in FOREX

**EUR/USD = 1.1051** pip



Last digit after the decimal point regardless of fractional representation of the rate



# Pip Values

How is a pip value calculated for a currency pair?

**Consider the following example:**

$$£1 \implies \$1.8800$$

$$X \implies \$0.0001$$

$$X = \frac{0.0001}{1.8800} = 0.00005319$$

$$0.00005319 \times 1.8800 = 0.00009999 \text{ (approximately equal to } 0.0001\text{)}$$

Question: For \$100,000, what would the pip be equal to?

$$100,000 \times 0.0001 = \$10$$



# Pip Values

## Example 2: USD/JPY

$$\text{\$1} \quad \Longrightarrow \quad \text{¥ 113.70}$$

$$X \quad \Longrightarrow \quad \text{¥ 0.01}$$

$$X = \frac{0.01}{113.70} = \$0.0000879$$

Question: For \$100,000, what is the pip equal to?

$$100,000 \times 0.0000879 = \$8.79$$



# Cross Rates

## The ratio of two non-US \$ exchange rates

What is the EUR/JPY?

It is the Euro expressed in terms of ¥

€1     $\implies$     \$1.2600

\$1     $\implies$     ¥113.70

$$\frac{\cancel{\text{€}}}{\cancel{\text{\$}}} \times \frac{\cancel{\text{\$}}}{\cancel{\text{¥}}} = \frac{\text{€}}{\text{¥}}$$

$$1.2600 \times 113.70 = 143.26$$



# Pip Value of Cross Rates

EUR/JPY is:

$$€1 \implies ¥143.26$$

$$X \implies ¥0.01$$

$$X = \frac{0.01}{143.26} = 0.0000698$$

$$1.2600 \times 0.0000698 = 0.0000879$$

**Question: For \$100,000, what is the pip equal to?**

$$100,000 \times 0.0000879 = \$8.79$$



# Lot Sizes

You can only trade lots, not single units

The lots are denominated in amounts of \$100,000, \$50,000, \$10,000, \$5000, and \$1000

Nano lot  
100 Units

Micro lot  
1,000 Units

Mini lot  
10,000 Units

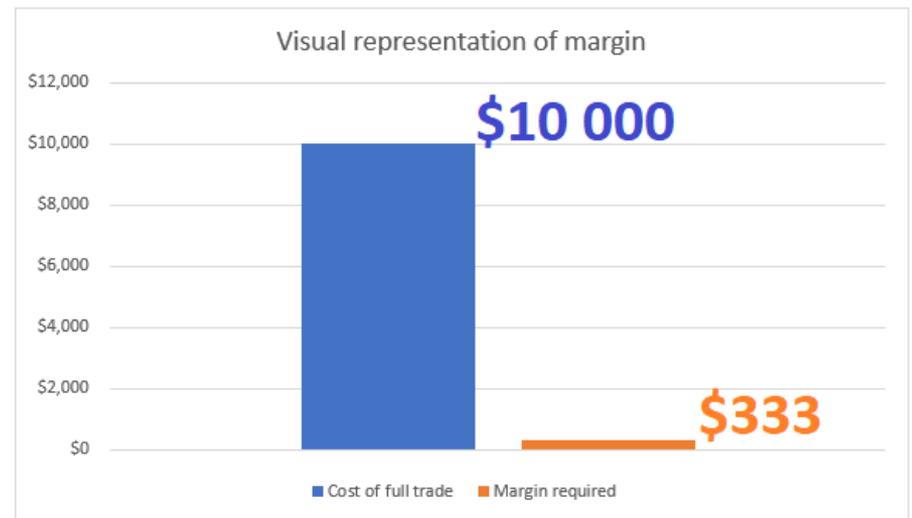
Standard lot  
100,000 Units



# What is Margin?

It is collateral that the holder of a position has to deposit to cover the credit risk of his counterparty

The amount you can borrow against your margin is decided by the brokerage firm



# Cash to Margin

How much money is needed to enter a trade?

With a 100:1 margin and a lot size of \$10,000,  
\$123.23 is needed to buy 1 lot of EUR/USD

If margin = 100:1 and lot size =  
\$100,000, how much is needed to buy 1  
lot of EUR/USD? \$1232



**Required Margin**



**Position Size**



# Margin Calls

A **margin call** occurs when the investor's usable margin falls to zero

When the margin posted in the margin account is below the minimum margin requirement, the broker issues a margin call

Current positions will be closed out automatically

To avoid receiving a margin call, one can either liquidate some positions or deposit more money to relax the account

