Forex Traders' Guide to Major Economies

Today we're going to take a trip around the world, but it ain't gonna take 80 days.

If you're fast enough to keep up, we can probably get around in just 80 seconds! ...Not!

In any case, we'll make sure you learn about the nitty-gritty of each major economy and what makes its engine go.

For each country that we will be touring, we'll start off with a quick peek at the important **facts and figures**, followed by an **overview of its economy**.

Once that's out of the way, we'll visit the **country's central bank** to find out some of their secrets. In this section, we will explore the powerful **monetary policy tools** central banks employ to control the country's economy.

Hopefully, we'll stumble into the room where they keep their printing plates and we can sneak out the back door and sell it on the black market.

We're kidding - we're here to teach you how to trade forex the legal way.

After that, we'll discuss the **important characteristics** that differentiate that country's local currency from all the rest, as well as hard-hitting **economic indicators** for that country.

To keep the trip interesting, we'll be dishing some **trivia** every now and **trading tactics** that will prove useful later on when you go off on your pip-catching adventure!

And as we promised, this very exclusive field trip is covered by your scholarship. No need for travel visas and no need to buy a travel fanny. Although if you're paranoid like Huck, then go right ahead.

Pack light, cause all you'll need is your hunger for more learning. If you need a change of clothes, don't worry, you can borrow one of Cyclopip's robes.

Are you ready?

Let's get this show on the road!

United States of America

The United States of America is comprised of 50 states and a federal district. Majority of the country could be found in North America, but the United States also has some territories in the Pacific.

Since its independence from the U.K. on the Fourth of July back in 1776, the U.S. has become an economic superpower not just in the West but also in the whole world.

Being the world's largest economy, the U.S. plays a serious role in the global market. Just about any economic development in the U.S., such as a rise or fall in consumer spending or an affair by its President that is made public, could create quite a hefty impact on economies all over the world!

United States: Facts, Figures, and Features

Neighbors: Canada, Mexico, Puerto Rico, Cuba
Size: 3,794,101 square miles
Population: 308,851,100
Density: 83 people per square mile
Capital City: Washington, D.C.
Head of Government: President Barack Obama
Famous Actors: Sandra Bullock, Jeff Bridges, Johnny Depp, Bill Clinton
Currency: U.S. Dollar (USD)
Main Imports: Industrial supplies (crude oil, etc.), capital goods (computers, telecom equipments, automobile parts, office machines, electric power machinery), consumer goods (automobile, clothing, medicines, furniture, toys), and agricultural products
Main Exports: Capital goods (transistors, aircraft, automobile parts, computers, telecom equipment), industrial supplies (organic chemicals), consumer goods (automobiles, medicines), agricultural products (soybeans, fruit, corn) , Barbies, Xbox consoles, and Apple IPods
Imports Partners: China (15.4%), Canada (11.6%), Mexico (9.1%), Japan (4.9%), Germany (3.7%)
Exports Partners: Canada (13.2%), Mexico (8.3%), China (4.3%), and Japan (3.3%)
Time Zones: GMT -10, GMT -9, GMT -8, GMT -7, GMT -6, GMT -5
Website: http://www.usa.gov

Economic Overview

The U.S. is widely considered to be the richest country in the world, producing about $14.2 trillion in output in 2009. It ranked 10th in 2009 in terms of per capita income - that's just the country's total income divided by its population - of about $46,442 in a year.

The U.S.'s main industries are aircrafts, automobiles, transistors, telecom equipments, and other industrial materials. Although it might seem that the US economy is heavily oriented towards the manufacturing physical goods, 70% of its output actually comes from the services sector!

Speaking of trade, one key element of U.S. economy is that the country is notorious for running huge trade deficits, which just means that the total goods flowing in the country more than the total value of those going out.

The U.S. is also home to the New York Stock Exchange, which is the largest stock exchange in the world. It is also home to the world's largest bond market, with a market capitalization of over $31 trillion and over $822 billion in bonds traded daily on average.

Being the top economy in the world in today's globalized market, any domestic event affecting the U.S. also has the potential to affect markets around the world... Yes, even the foreign exchange market!

Monetary & Fiscal Policy

The Federal Reserve Board, more commonly called the Fed, is the U.S.'s main governing body when it comes to setting and implementing monetary policy. Monetary policy is just the way the Fed controls the availability and supply of money in the economy.

What makes the Fed special from other central banks is that its objectives are based on a longer time frame, which means the Fed is more focused on the longer-term effects of its monetary policy.

The Fed's has two main objectives. The first one is keeping the prices of consumer goods and services stable and the second one is making sure that there is sustainable economic growth.

In other words, the Fed just wants to make sure that yo' Benjies doesn't lose value and yo' momma and poppa have jobs!

Within the Fed is the Federal Open Market Committee (FOMC). Currently led by Fed Governor Ben Bernanke, the FOMC is tasked to make sound and rational decisions on monetary policy.

The FOMC has two main weapons to use in its battle against inflation and achieve its long-term objectives: open market operations and the Fed's Funds Rate.

The Fed's first line of defense, its open market operations, is the buying or selling of government financial instruments like securities, notes and bonds.

The Feds Funds Rate, its stronger, more obvious double-barreled shotgun, is the interest rate the Fed offers other commercial banks.

Now, the one accountable for fiscal policy decisions is the U.S. Treasury. Fiscal policy is the use of government spending or tax collection to influence the direction of the economy.

To encourage business activity, the U.S. Treasury, for instance, could choose to lower taxes and to allot more budget on capital infrastructures like highways, schools, broadband, secret military ninja bases, etc. On the other hand, if inflation starts to get out of hand, it could increase tax rates and cut spending.

Getting to Know the USD

Did you know that the nickname "Buck" for the U.S. dollar originated from buckskin, which was a common medium of exchange when the early American settlers traded with the Indians?

Even after paper currency replaced buckskin in the barter system, people still refer to the medium of exchange as bucks! Check out these forex-related properties of the buck:

Liquidity is my thing!

A ginormous amount of currency transactions every day involves the USD. Commodities like gold and crude oil are also denominated in dollars. During the Asian session alone, the dollar takes up at least 93% of all the currency transactions.

To put this in perspective, take the New York Stock Exchange and the U.S. bond market for example. The value of the companies listed in the NYSE amounts to $28.5 trillion, about 78% of the size of the world's $36.6 trillion stock market.

Similarly, of the $82.2 trillion value of the global bond market, the U.S. takes up $31.2 trillion. Every single transaction there, in some way, involves the USD. How's THAT for liquidity?

The Fed and the U.S. government believe I should remain strong

Over the past few decades, the Fed and the U.S. Treasury have kept a "strong dollar" policy. They believe that monetary and fiscal policy should be geared towards a strong exchange rate of the USD, as it would benefit the U.S. and the rest of the world.

The currencies of many emerging countries rely on me to determine their value

How often have you heard the phrase, the dollar is the world's reserve currency? Well, the reason behind this is that some countries actually peg their currencies against the dollar!

When a country does this, the government agrees to buy or sell their currency at a fixed priced versus the dollar. While the government can increase and decrease the supply of money, they are still subject to having the equivalent amount of dollars in reserve.

This process magnifies the importance of the dollar around the world, because this means that some economies are entirely dependent on the dollar!

If the dollar's value were to stage a massive fall, it would produce a wide-reaching negative effect in all the other countries that are pegged their currency on the dollar.

Important Economic Indicators for the USD

Non-farm employment change (NFP) - The NFP employment report measures the change in the number of employed people in the prior month.

GDP - The Gross Domestic Product (GDP) report is the measure of the country's total value of all final goods and services.

Retail Sales - The headline retail sales report measures the monthly change in the total value of sales at a retail level. The core version of the report, on the other hand, excludes vehicle sales.

Consumer Price Index (CPI) - The CPI measures the change in the prices of a fixed basket of goods and services. The core account excludes food and energy prices because of their volatile nature.

Personal Consumption Expenditure - This is very similar to the CPI report, as it measures the change in US consumer goods. The reason why you should look at this report is because this is the one that the Fed looks at when making decisions regarding monetary policy. And we all want to be in cahoots with the experts right?

University of Michigan Consumer Sentiment - Every month, the University of Michigan releases its consumer sentiment report. This index measures the attitude consumers have towards the economy. The more confident consumers are about economic conditions, the more likely they are to spend.

What Moves the USD?

The Gold Rush

Whenever the dollar is at risk of losing its value due to inflation, investors turn to gold for safety. Unlike most financial assets, gold maintains its intrinsic value. Gold is gold is gold - it's the same everywhere! So when gold prices are rising, it could be a sign that the dollar is losing its appeal.

Economic Developments in the U.S.

Fundamentally, positive economic developments in the U.S. attract more participants to invest in the U.S. An investor would of course need to have some dollars to be able to transact in the U.S. So as the demand for U.S. investments increases, the demand for the greenback rises as well.

Capital Inflows and Outflows

With respect to Japan and London, the U.S. probably has the most advanced financial markets. This provides the many kings, sultans, billionaires, and heirs around the world many types of investments which they can choose from.

In order to invest in these American assets, investors would first need to convert whatever currency they are holding in to U.S. dollars. The capital inflows and outflows from the U.S. financial markets can have a significant effect on the value of the dollar.

Economic Developments Around the World

Since the USD takes up about majority daily currency transactions, just about any major development in the world (i.e. strong GDP growth in Australia, a stock market crash in Beijing, or a Godzilla attack in Tokyo) affects its short term valuation.

Bond Yield Differentials

With investors always looking for the best deal for their money, it is important to keep track of the differences in the yields of bonds of the U.S. and other foreign countries.

If investors see that bond yields are rising in foreign countries while yields in the U.S. are staying steady or going lower, investors will move their funds out of U.S. bonds (selling their dollars in the process) and begin purchasing foreign bonds.

Rumors on the Interest Rate Grapevine

Market participants pay attention to interest rates trends, and you should too.

If the Fed is expected to raise interest rates, this means that demand for dollar-denominated financial assets (like Treasuries) could rise, which would be bullish for the dollar.

If the Fed is expected to cut interest rates, it could lessen demand for these assets and we could see investors move their funds away from the dollar.

Since Fed officials usually drop hints about the central bank's future interest rate moves, traders are all ears during policymakers' speeches.

Trading the USD

USD as the Base Currency

XXX/USD is traded in amounts denominated in XXX. Standard lot sizes are 100,000 XXX and mini lot sizes are 10,000 XXX.

The pip value, which is denominated in US dollars, is calculated by dividing 1 pip of the XXX/USD (0.0001 or 0.01 depending on the pair) by the XXX/USD's current rate.

Profit and loss are denominated in U.S. dollars. For one standard lot position size, each pip movement is worth 10 USD. For one mini lot position size, each pip movement is worth 1 USD.

Margin calculations are based in US dollars. For example, if the current XXX/USD rate is 0.8900 and the leverage is 100:1, 890 USD is needed in available margin to be able to trade on standard lot of 100,000 XXX. However, the as the XXX/USD rate increases, a larger available margin in USD is required. Conversely, the lower the XXX/USD rate is, the less required available margin is needed.

USD as the Quote Currency

USD/XXX is traded in amounts denominated in USD. Standard lot sizes are 100,000 USD and mini lot sizes are 10,000 USD.

The pip value, which is denominated in XXX, is calculated by dividing 1 pip of the USD/XXX, which would be 0.0001 or 0.01 depending on the pair being talked about, by the USD/XXX current rate.

Profit and loss are denominated in XXX. For one standard lot position size, each pip movement is worth 10 XXX. For one mini lot position size, each pip movement is worth 1 XXX. For example, if one pip is equal to 0.0001 and the current exchange rate of USD/XXX is 1.4000, one pip of one standard lot would equate to 14 USD.

Margin calculations are based in US dollars. With a leverage of 100:1, 1,000 USD is needed to trade 100,000 USD/CAD.

USD Trading Tactics

Now let's put all these things we just learned and come up with some trade tactics for the USD.

Looking at differences in U.S. economic developments and economic data from other major economic is a good way to start off trading the USD. For example, a jump in the US retail sales and ugly results on UK's employment situation report would be give you a reason to sell the GBP/USD.

The U.S. dollar index or USDX, which tracks the performance of the USD versus a fixed basket of currencies, is also a great barometer of the strength of the USD. By regularly looking at the U.S. dollar index, you can find some clues on where the USD is headed.

A USDX that is trending upwards could provide you the additional confirmation you need to take a short position on the EUR/USD.

Talks of a Fed funds rate hike, which signals the possibility of higher returns on US assets, encourage traders to buy up the USD. Well, don't get left behind!

Taking note of the Fed's monetary policy outlook, which is usually part of Fed officials' speeches, could yield some clues about the direction of the USD.

Hawkish remarks could serve as signals to go long on the USD/JPY while dovish comments could serve as reasons to short the USD/JPY.

Euro Zone

The European Union (EU) is a brotherhood of 27-member states which started from a tiny gang of six neighboring states in 1951. By the magical powers of the Treaty of Maastricht, it then grew into a large economic and political bloc, making it the largest economic region in the world. Talk about playing a huge role in international trade and global economic affairs!

Among these EU member states, sixteen countries adopted the euro (EUR) as their common currency. These nations comprise the euro zone, which is also called the European Monetary Union (EMU) or Euroland.

Members of this elite club are: Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

Aside from adopting a common currency, these nations also share the same monetary policy set by the European Central Bank.

Euro zone: Facts, Figures, and Features

Member Nations: Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain
Size: 1,669,807 square miles
Population: 501,259,840
Density: 300.2 people per square mile
Head of European Commission: Jose Manuel Barroso
Head of European Parliament: Jerzy Buzek
Head of European Council: Herman Van Rompuy
Currency: Euro (EUR)
Main Imports: Machinery, vehicles, aircraft, plastics, crude oil, chemicals, textiles, metals
Main Exports: Machinery, motor vehicles, aircraft, plastics, pharmaceuticals and other chemicals, Antonio Banderas, Penelope Cruz, Jean-Claude "The Muscles from Brussels" van Damme
Imports partners: China 15.89%, U.S. 11.97%, Russia 11.22%, Norway 6.13%, Switzerland 5.14%
Exports partners: U.S. 19.07%, Russia 8.03%, Switzerland 7.49%, China 6%, Turkey 4.14%
Time Zones: GMT, GMT+1, GMT+2
Website: http://www.europa.eu

Economic Overview

The euro zone, which comprises more than half of the nations in the EU, ranks as the second largest economy with a GDP of €8.7 trillion in 2009Being a services-oriented economy, services account for a whopping 70% of its GDP!

On top of that, the euro zone takes pride in being the second most attractive investment market for domestic and international investors.

As an economic union, the euro zone has a standardized system of laws, particularly for trade. The size of their entire economy makes the euro zone a major player in the international trade arena.

Because the individual countries are grouped as one entity, it enables them to facilitate trade easier, mostly with its number one trade partner, the U.S.

This active participation in international trade also has a significant impact on the role of the EUR as a reserve currency.

This is because countries who transact with the euro zone need to have a significant amount of reserve currencies in order to reduce exchange rate risk and minimize transaction costs.

Monetary & Fiscal Policy

The European Central Bank (ECB) acts as the governing body for the monetary policy of the EU. Led by the current ECB President Jean-Claude Van Damme... errr, we meant Jean-Claude Trichet, the Executive Board also consists of the ECB Vice President and four other policymakers.

Along with the top guns from the national central banks within the euro zone, they make up the ECB Governing Council who vote on monetary policy changes.

The main objective of the ECB is to maintain price stability in the entire region - quite a tall order! To achieve this goal, the euro zone signed the Maastricht Treaty which applied a certain set of criteria for the member nations. Here are some of the requirements:

> The nation's inflation rate must not exceed the average inflation of the three best performing (lowest inflation rates) states by more than 1.5%.
>
> Their long-term interest rates must not exceed the average rates of these low-inflation states by more than 2%.
>
> Exchange rates must stay within the range of the exchange rate mechanism for at least a couple of years.

Their government deficit must be less than 3% of their GDP.

If a nation fails to meet these conditions, they are penalized with a hefty fine. Yikes! The

ECB also makes use of their minimum bid rate and open market operations as their monetary policy tools. The ECB minimum bid rate or repo rate is the rate of return the central bank offers to the central banks of its member states. They make use of this rate to control inflation.

Open market operations, on the other hand, are used to manage interest rates, control liquidity, and establish monetary policy stance. Such operations are conducted through buying or selling of government securities in the market.

In order to increase liquidity, the ECB buys securities and pays with euros, which then get circulated. Conversely, to mop up excess liquidity, the ECB sells securities in exchange for euros.

Other than making use of those monetary policy tools, the ECB can also opt to intervene in the foreign exchange market to further cap inflation. Because of this, traders pay close attention to comments from the Governing Council members since these could impact the EUR.

Getting to Know the EUR

Aside from being dubbed the anti-dollar, the EUR is also nicknamed as the fiber. Some say that this nickname was derived from the Trans-Atlantic fiber optic, which was used for communication, while some argue that it was from the paper used to print European banknotes way back then! Here are some of the other characteristics of the EUR.

They call me the Anti-Dollar!

With the EUR popularly known as the anti-dollar, the EUR/USD is the most actively traded currency pair. As such, it is also the most liquid of the major pairs and offers the lowest pip spread.

I'm busy during the London session...

The EUR is most active during 8:00 am GMT, at the beginning of the London session. It often has little movement during the latter half of the U.S. session, around 5:00 pm GMT.

...and I've had a few relationships.

The EUR/USD is often linked to the movement of capital markets, such as bonds and equities. It is negatively correlated to the movement of the S&P 500, which represents the performance of the U.S. stock market.

This correlation was thrown out of sync after the 2007 financial crisis though. Now, EUR/USD has a slightly positive correlatoin with the S&P 500.

EUR/USD is also negatively correlated to USD/CHF, reflecting how the CHF moves in almost perfect tandem with the EUR.

Important Economic Indicators for the EUR

Gross Domestic Product - Gross domestic product is the central measure of economic growth in the region. Since Germany is the largest economy in the euro zone, its GDP tends to move the EUR the most.

Employment Change - The EUR is also sensitive to changes in employment, particularly in the euro zone's largest economies like Germany and France.

German Industrial Production - This measures the change in volume of output from Germany's manufacturing, mining, and quarrying industries. Because of this, it reflects the short-term strength of German industrial activity.

German IFO Business Climate Survey - This is one of the country's key business surveys. Conducted monthly, this takes into the account the current business situation of Germany as well as expectations for future conditions.

Budget Deficits - Recall that one of the criterias in the Maastricht Treaty requires that euro zone economies keep their debt-to-GDP ratio below 60% and their deficit less than 3% of its annual GDP. Failure to achieve these targets could result to fiscal instability in the euro zone.

Consumer Price Index - Since one of the goals of the ECB is to maintain price stability, they keep an eye on inflation indicators such as the CPI. If the annual CPI deviates from the central bank target, the ECB could make use of its monetary policy tools to keep inflation in check.

What Moves the EUR?

Euro zone Fundamentals

Reports of strong economic performance by the euro zone as a whole or by its member nations can boost the EUR higher. For instance, better than expected GDP reports from Germany or France could encourage traders to be bullish on the EUR.

Uncle Sam's Groovy Moves

Sudden changes in market sentiment, buoyed mostly by U.S. economic data, tend to have a huge impact on EUR/USD.

Being considered the anti-dollar, the EUR is also swayed by talks of reserve diversification away from the U.S. dollar. EUR as the new reserve currency, anyone?

Differences in Rates of Return

Bond spread between 10-year U.S. government bonds and 10-year Bunds (German bonds) usually indicate the direction of EUR/USD.

If the difference between the yields of the U.S. bonds and Bunds widens, EUR/USD moves in favor of the currency with the higher yield.

Similar to bond yields, interest rate differentials also serve as an excellent indicator for the EUR/USD movement. For instance, traders usually compare the Euribor futures rate with the Eurodollar futures rate.

Just to clear things up: Euribor stands for Euro interbank offer rate, which is the rate Euro zone banks use for inter-bank transactions, while Eurodollars are deposits denominated in U.S. dollars.

Trading EURUSD

EUR/USD is traded in amounts denominated in euros. Standard lot sizes are 100,000 EUR and mini lot sizes are 10,000 EUR.

The pip value, which is denominated in U.S. dollars, is calculated by dividing 1 pip of EUR/USD (that's 0.0001) by EUR/USD's rate.

Profit and loss are denominated in U.S. dollars. For one standard lot position size, each pip movement is worth 10 USD. For one mini lot position size, each pip movement is worth 1 USD.

Margin calculations are based in US dollars. For instance, if the current EUR/USD rate is 1.4000 and the leverage is 100:1, it will take 1,400 USD in available margin to be able to trade one standard lot position of 100,000 EUR.

As EUR/USD's rate increases, a larger available margin in U.S. dollars is required. The lower EUR/USD's rate, the lower the required available margin in U.S. dollars.

EUR/USD Trading Tactics

Pro-euro moves, which typically take place upon the release of strong economic figures from the euro zone, create opportunities for long EUR/USD trades.

Anti-euro moves, which usually occur when weak euro zone economic reports are released, provide basis for a short EUR/USD trade.

Since EUR/USD usually acts as a measure of traders' view on the U.S. dollar, sensing the direction of the U.S. dollar could create some trade strategies for EUR/USD.

For instance, if traders are expected to buy the dollar if the U.S. retail sales report prints better-than-expected results, you could look for an opportunity to short EUR/USD.

Aside from waiting for EUR/USD pair to retest or break significant support and resistance levels, taking a trade based on retracements also works for this pair.

EUR/USD is highly susceptible to retracements, which means that setting short or long orders at significant Fibonacci levels could yield some pips. By catching retracements, one may be able to enter the trade at a better price than just simply jumping in the direction of the price movement.

If you're a bit more adventurous, there are other EUR pairs, such as EUR/JPY, EUR/CHF, and EUR/GBP, that you can check out! Each EUR cross has cool and unique characteristics too.

For instance, EUR/JPY, which is more volatile than EUR/USD, tends to be more active during the Asian and London sessions.

EUR/GBP and EUR/CHF tend to be range-bound most of the time. The latter is more prone to large spikes though due to lower level of liquidity.

United Kingdom

The United Kingdom is a land of many accents as it is actually composed of four countries - England, Northern Ireland, Scotland, and Wales.

Headed by the Queen, the U.K. is considered a constitutional monarchy, but is governed through a parliamentary system that is based in England's capital of London.

The U.K. is also part of the European Union. However, the U.K. has refused to join the euro zone and is adamant about using the pound as its currency. Unfortunately, this means that having a Schengen visa won't let you travel through the U.K., you'd have to get a separate visa!

United Kingdom: Facts, Figures, and Features

Neighbors: Ireland, Germany, France
Size: 93,628 square miles **Population:**
60,975,400 (22nd) **Density:** 651.3
people per square mile
Capital City: London (population 7,557,000)
Head of State: Queen Elizabeth II
Head of Government Prime Minister: Gordon Brown
Currency: British Pound (GBP) or sterling
Main Imports: manufactured goods, transportation equipment, chemicals, fuel, machinery
Main Exports: Ores and metals; wool, food and live animals; fuels, transport machinery and equipment, David Beckham, Simon Cowell
Imports Partners: Germany 14.2%, U.S. 8.6%, China 7.3%, Netherlands 7.3%, France 6.9%, Belgium 4.7%, Norway 4.7%, Italy 4.2%
Exports Partners: U.S. 15%, Germany 11%, France, 10%, Ireland 7%, Netherlands 6%, Belgium 6%, Spain 5%, Italy 4%
Time Zone: GMT
Website: http://number10.gov.uk

Economic Overview

The U.K. is the world's sixth largest economy and as far as history shows us, they're a force to reckon with. After all, it is Britain that started the Industrial Revolution.

The U.K. also had the world's largest empire back in the day. So for the past 300 years or so, the U.K. has been a relevant world power. Now that's what you call consistency!

In terms of trade, England is a net importer of goods with a consistent trade deficit. Its largest trading partner is the euro zone, more specifically Germany, which shouldn't come as a surprise because Germany is a stone's throw away across the English Channel.

Trade activity with the euro zone accounts for over 50% of the UK's trading activity. The U.S., on an individual basis, still remains the U.K.'s largest trading partner.

Not only do the British have cool accents and hotties like Kate Beckinsale, it is also home to arguably the oldest major financial center in the world. We're talking about London, boys and girls! Having a financial hub like London amplifies England's place in world trade.

Monetary & Fiscal Policy

Now here's a little bit of trivia for all of you: The oldest central bank in the world is the Bank of England (BOE).

Back in the day, when England was on the verge of economic expansion, government leaders realized that they needed an entity to help facilitate international trade. Enter the Bank of England. In 1694, the BOE was founded to help facilitate trade and growth for England.

Today, the BOE's main monetary policy objective is that of maintaining price stability while at the same time, fostering growth and employment.

As it is, the BOE is aiming for a target inflation rate of 2.0%, which is measured by the consumer price index (CPI). In order to meet this target, the BOE has been granted the magical power to change interest rates to levels that they believe will allow them to meet this target.

The group within the BOE that is in charge of determining interest rates is the Monetary Policy Committee (MPC).

The MPC holds monthly meetings, which are closely followed for announcements on changes in monetary policy, including changes in the interest rate. Like all other things British, interest rates have a different name in England. In England, the interest rate is called the bank repo rate.

The main policy tools used by the BOE's Monetary Policy Committee are bank repo rate and open market operations.

The bank repo rate is the rate set by the BOE for its own operations in the market to help meet the MPC's inflation target. Whenever the MPC changes this rate, it affects the rates commercial banks set for their savers and borrowers. This in turn will also affect spending and output in the economy, and eventually costs and prices.

Like other central banks, if the BOE raises the repo rate, they are aiming to curb inflation. On the other hand, if they lower the rate, they are aiming to stimulate growth in the economy.

When the BOE engages in open market operations, the BOE buys and sells GBP denominated treasuries and securities to control the supply of money. This is an alternative method to increase liquidity in the financial markets.

If the BOE feels that there is a need to stimulate the economy, they will "print more money" and inject this into money supply through the purchases of the government and corporate securities.

On the other hand, if the BOE feels like the economy has had enough candy, they will sell more securities, effectively "taking back" money from the economy.

Getting to Know the GBP

The GBP must be pretty popular kid since it has a lot of cool nicknames. Aside from being called the Sterling and the Pound, GBP pairs have awesome nicknames such as the Cable (GBP/USD) and the Guppy (GBP/JPY). Impressive, huh?

I like to bust a move...

GBP/USD is one of the most liquid currency pairs in the forex market. How come? Remember, London has long been a major financial center in the world. With major business transactions taking place every day, lots of moolah goes in and out of London.

Still, the GBPUSD only accounts for 14% of global trade, making it just the third most active pair traded. This is probably the reason why spreads on the GBP/USD tend to be a pip or two more than that of the EUR/USD and the USD/JPY.

... and traders like me because I've got some nice curves.

With so many big time corporations being based in London, there are many highly attractive investments to be found in the U.K. market.

Couple this with having some of the higher interest rates (usually) amongst the major currencies, investors may find British securities to be more attractive. In order to get their hands on these assets, investors would first need to purchase some GBP.

I'm nimble during the London session...

GBP/USD trading volume is the highest during the European session, with potential for strong moves during the New York session when key U.K. and U.S. data is released.

The Asian session doesn't normally provide much movement as European traders are still in bed while U.S. traders have just finished their day.

... but be careful 'cause I can get kinda rowdy!

The GBP pairs are very prone to volatile moves because of its lower level of liquidity compared to that of the EUR.

With liquidity growing thin at certain times in the market, the GBP can get caught in one direction, especially if there are large buy or sell orders in that direction. Compared to other currency pairs, GBP pairs tend to react more strongly to surprise economic data releases.

Important Economic Indicators for the GBP

Unemployment Rate - This is the measure of how many unemployed people there are in the UK economy. Analysts look at this account carefully because it could be a leading indicator of future spending. How come? Well, if a person has no job, he has no money. Without any money, nobody would be able to afford tea time!

Consumer Price Index (CPI) - The BOE looks at this account as a measure of inflation. It measures the change in prices of consumer goods.

Gross Domestic Product (GDP) - This figure reflects the state of the UK economy. It indicates whether the economy is growing and booming, or if it is stuck in the English Channel and drowning.

Purchasing Managers Index (PMI) - This index surveys business managers and asks them their view of the current economic landscape. Scores above 50.0 indicate improving conditions which may lead to expansion, while scores below 50.0 hint at possible contraction.

Gfk Consumer Confidence report -This report gauges consumers' confidence about current and future economic conditions. The more confident consumers are regarding the state of the UK economy, the more likely that they will be willing to spend.

What Moves the GBP

Changes in Monetary Policy

Many investors look at the pound for higher yielding assets and for carry trade. Changes in the MPC's interest rate alter sentiment towards the pound as it affects the yield of British securities.

In addition, changes in the bank repo rate also reveal the BOE's outlook on the economy.

If the BOE officials feel that the economy is hurting, they will either expand quantitative easing measures or cut interest rates, which will signal to the public that the economy is unstable.

If the BOE feels that economy's rise may lead to inflationary pressures down the road, they may cut back on quantitative easing or hike interest rates.

Developments in the euro zone and US

Like other currency pairs, GBP/USD is also heavily affected by developments in the euro zone and U.S. U.S. economic data directly affect investors and traders sentiment in the market. Good or bad data from the U.S. can either send market participants running to the GBP on increased risk appetite, or looking for safety in the USD on account of risk aversion.

The Spill Over Effect

The euro zone accounts for a majority of the U.K.'s trade relations. Because of this, you should also keep your binoculars ready to see any developments over in the mainland

(Remember, the U.K. is an island!). Any bad news or poor economic performance could potentially lead to bearish sentiment towards the GBP.

Driven by Risk Sentiment

Albeit small, the GBP benefits from the fact that it boats a higher interest rate amongst other major currencies. When traders are in search of greater yields, they will look to the U.K. because of the potential of getting a higher return on their investments. When traders want to unwind their high-yielding investments and look for USD-dearest, they will start selling off the GBP.

Trading GBP/USD

GBP/USD is traded in amounts denominated in GBP. Standard lot sizes are 100,000 GBP and mini lot sizes are 10,000 GBP.

The pip value, which is denominated in U.S. dollars, is calculated by dividing 1 pip of GBP/USD (for GBP/USD, this is 0.0001) by GBPUSD's spot rate.

Profit and loss are denominated in U.S. dollars. For one standard lot position size, each pip movement is worth 10 USD. For one mini lot position size, each pip movement is worth 1 USD.

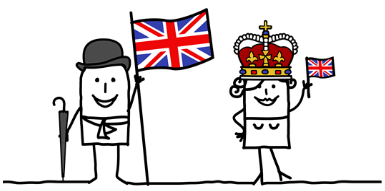
Margin calculations are based in U.S. dollars. For example, if the current GBP/USD rate is 1.5000 and the leverage is 100:1, 1,500 USD is needed in available margin to be able to trade one standard lot of 100,000 GBP. Take note, a higher GBP/USD sport rate requires more USD in available margin, while a lower rate would need less USD for margin.

GBP/USD Trade Tactics

One way to trade GBP pairs is to take note of when key reports come out. GBP pairs tend to react more strongly to economic reports.

For example, if U.K. GDP figures were to come in much better than expected, it could lead to massive rally in the GBP. Even if you were to enter late, you could still grab a bunch of pips because GBP pairs really move a lot.

Be careful though - GBP/USD and GBP/JPY pairs are the most volatile among the majors. In fact, GBPUSD moves around 160 pips per day on average. Because the GBP is so volatile, you might want to set wider stop loss orders to withstand all the strong moves in the market.



Japan

Konichiwa! Located in East Asia, Japan is an archipelago of 6,852 islands, although a majority of its land mass is accounted for by the 4 largest islands.

Despite being a relatively small country, Japan's capital Tokyo, is home to 30 million hard working citizens, making it the largest metropolitan area in the globe.

Also, even though Japan is densely populated, the Japanese have one of the highest standards of living, while also having the highest life expectancy in the world.

Japan is also one of the most advanced and tech-friendly countries in the world. Can you imagine a world without the karaoke, the Gameboy or a Prius? That's right - didn't think so.

Also, did you know that the Japanese characters that make up Japan's name mean sun-origin, and that Japan is often referred to as the "Land of the Rising Sun"?

Japan: Facts, Figures, and Features

Neighbors: Russia, Korea, China
Size: 145,917 square miles
Population: 127,716,000 (10th)
Density: 875.3 people per square mile
Capital City: Tokyo (population 8,653,000)
Head of State: Emperor Akihito
Head of Government: Prime Minister Taro Aso
Currency: Japanese Yen (JPY)
Main Imports: Raw materials, foodstuff, mineral fuels, manufactured goods, machinery, transport equipment
Main Exports: Motor vehicles, electronic goods, machinery, steel, scientific instruments and watches, Suzuki Ichiro, Sony PlayStation, Samurai swords, Mr. Miyagi
Imports Partners: China 18.9%, U.S. 10.4%, Saudi Arabia 6.7%, Australia 6.2%, UAE 6.1%, Indonesia 4.3%
Exports Partners: U.S. 17.8%, China 16%, South Korea 7.6%, Hong Kong 5.1%
Time Zone: GMT +09
Website: http://kantei.go.jp

Economic Overview

Aside from being the video game capital of the world, Japan's economy is ranked as the third largest as of 2009.

Since the end of World War 2, Japan has been on a rampage, experiencing rapid economic growth, despite the fact that the country is mountainous and volcanic. Because of the laws of nature, this limits the growth of natural resources in Japan.

In order to make up for this lack of resources, the Japanese economy has become very export dependent, with exports amounting to almost $500 billion in 2009! This amount is equal to about 40% of their total output!

Recently, Japan has been riding the cocktails of China's massive growth. With Japan being the nearest major economy, Chinese demand has led to massive shopping sprees of Japanese products.

Not only does Japan have great food (how can you beat tempura and sushi?!), it is also home to one of the world's biggest financial centers - Tokyo!

As you see in the movies, Japanese businessmen mean serious business! With so much money flowing in and out of Tokyo every day, traders and investors can use Japan as a proxy for what's happening in the Far East.

Monetary & Fiscal Policy

While the Bank of Japan (BOJ) has been around since the late 1800s, only recently did the BOJ gain independence from the Ministry of Finance (MoF). It was only in 1998 that the Japanese government passed laws giving the BOJ control over monetary policy.

Take note that the Ministry of Finance still remains in charge of foreign exchange policy, which has led to tension and continuous differences between the two.

Normally, the government and the central bank are independent of each other - one should not have any influence over other. This is not the case for Japan. Even though the BOJ has gained independence from the government, there is a question of who really "wears the pants".

The MoF has kept a watchful eye on the BOJ, pressuring it to pass policies that would help the yen hit the MoF's foreign exchange targets. Similar to other central banks, the BOJ's main objective is that of price stability. The ninja bankers at the BOJ make use of open market operations and interest rates changes to meet their goals.

One thing you should know about the BOJ is that for a very, very long time, they have kept rates at low levels, with the current rate sitting at a measly 0.10%. Because the rate is already so low, the central bank cannot decrease the rate to stimulate growth or create liquidity.

For instance, in its efforts to fight deflation, the BOJ has whipped out its shurikens and has flooded the markets with money through unorthodox quantitative easing measures.

Quantitative easing measures are moves made by central banks in order to increase liquidity and money supply through the purchase of government securities.

This is sometimes called "printing money", because the central bank literally creates new money from thin air in order to buy back their government securities. In theory, the increase in the money supply would lead to an increase in lending and spending.

Over the years, Japan has created liquidity in the markets by flooding the economy with various programs that let the BOJ buy or sell Japanese government bonds and bills.

Getting to Know the JPY

The yen is so hardcore that it didn't want to be named anything else. It came into the foreign exchange market called the yen and up to now, it is still called the yen. The yen is the yen is the yen. It is also tied in currency crosses, especially against the EUR, GBP, and AUD.

Traders love me like the Japanese love their sushi.

After the USD and the EUR, the JPY is the most heavily traded currency, with USD/JPY also ranking as the 2nd most traded currency pair. Because of the role that Japan plays in international trade, there is need for the JPY in order to complete international transactions.

Are you ready for the Asian Sensation?

When investors think of Asia, they subconsciously think of Japan. With Tokyo being one of the world's major financial centers, Japan is often representative of what's happening in Asia.

Japan is normally a major trading partner of other Asian powers. If business is doing well in Asia, this is normally reflected by the Nikkei, the major stock exchange in Tokyo.

I'm always on the go...

With Japanese reports coming out during the Asian session, it is only natural that the yen trading is active during the Asian session (0:00 GMT).

The yen can also be active in other sessions depending on what economic data is released. This should be expected - it is part of Japanese culture, they do business around the clock!

...but I'm all for cheap thrills!

With many investors looking for the most bang for their buck, some have resorted to carry trade. With the JPY having the lowest interest rate amongst the majors, it is normally used in carry trade as a funding source.

The Japanese tend to think alike.

Japanese asset managers tend to make the same investment decisions. This leads to highly correlated positions, which means that it is likely to see trends develop.

I'm prone to breakouts...

One characteristic of yen pairs is their tendency to consolidate for quite some time, then break out in direction, then consolidate once again, then break out once again! Keep your eyes and ears ready because you never know when this might happen!

...and I have a love-hate relationship with China

With China emerging as a major power in the world, its influence on the JPY will continue to grow. If signs point to further growth in the Chinese economy, it may affect demand for the JPY.

How so?

As we've said, China is one of Japan's major trading partners. Naturally, as Chinese businesses boom, they will need to order more from Japan. This in turn would increase demand for the JPY, causing it to appreciate.

Important Economic Indicators for the JPY

Gross Domestic Product - This measures the economic activity of Japan. It indicates whether the economy is red hot like lava from Mt. Fuji, or if it's in the process of harakiri.

Tankan Surveys - These reports survey managers from a broad range of industries, questioning them on their views of the economy. Rising sentiment (scores above 0.0) indicate that Japanese businessmen expect business activity to pick up. Scores below 0.0 suggest otherwise.

Trade Balance - The Japanese economy is heavily export dependent. Falling export numbers could lead to a decline in economic activity.

Unemployment Rate - This measures the rate of unemployment in Japan. High unemployment could lead to a decline in consumer spending - how would they be able to afford their video games and anime??

Consumer Price Index (CPI) - In the past, the Bank of Japan has shown that they are not afraid to make moves to fight off deflation. If trends show that prices of samurai swords and shurikens continue to fall, it may lead to some surprise moves by the BOJ.

Core Machinery Orders - A large chunk of Japan's exports are comprised of machinery orders. The rise or fall in core machinery orders could reflect the current status of Japanese trade.

What Moves the JPY

Investment Moves

Due to its low interest rates, the JPY has been considered as a good funding source for investments in other countries. This means that if traders and investors are scared, they will begin to unwind their positions in higher yielding assets. Once traders start unwinding these riskier positions (carry trades), they have to cover their short JPY trades by buying back the currency.

The BOJ effect

This doesn't refer to those announced, scheduled effects. I'm talking about currency intervention! The BOJ and MoF keep special attention to the FX markets. With the Japanese economy being very export dependent, the value of the yen plays a key role in trade.

The BOJ doesn't want the JPY to appreciate too much because it would make Japanese exports relatively more expensive. By keeping the value of the JPY lower, they can stimulate demand for Japanese products, which in turn, would benefit the economy.

Trading USD/JPY

USD/JPY is traded in amounts denominated in JPY. Standard lot sizes are 100,000 USD and mini lot sizes are 10,000 USD.

The pip value, which is denominated in Japanese yen, is calculated by dividing 1 pip of USD/JPY (take note, for yen pairs, that's 0.01) by USD/JPY's current spot rate.

Profit and loss are denominated in Japanese yen. For one standard lot position size, each pip movement is worth 1,000 JPY. For one mini lot position size, each pip movement is worth 1,000 JPY. For example, if the current exchange rate of USD/JPY is 95.00 and you want to trade one standard lot, then one pip would equate to 10.52 USD

Margin calculations are based in U.S. dollars. For instance, with a leverage of 100:1, 1,000 USD is the needed to trade 100,000 USD/JPY.

USD/JPY Trading Tactics

USD/JPY tend to follow the short to medium term trends, which could last a few days. If you are maintaining a swing trade, that is holding a trade for more than a day, you can try to enter on retracements.

Once price begins to consolidate, you can close your position, and wait for another trend to develop. Take note that when price breaks out, it is likely that you will see a sustained move as traders jump back in on the trend.

Another tip to remember is that Japanese industrial companies normally set their orders at round figures, like 100.00 or 90.50. You should keep tract of whenever price are near these figures, as they can serve as short-term support and resistance levels.

Finally, you should also keep an eye out other yen pairs like EUR/JPY and GBP/JPY. If you see that one of these crosses is about to break a key technical level, it could unleash a fury of JPY buying or selling that will have a massive effect across the board.

Canada

Oh Canada... Uncle Sam's friendly, environment-loving, French-influenced, semi-frozen buddy up north. It is a place known to have created some of the most amazing things in the world, such as basketball, baseball, maple syrup, and Smarties.

Canada, a country which takes up most of North America, extends from the Atlantic Ocean all the way to the east to the Pacific Ocean. It is composed of ten provinces and three territories, and is considered as one of the world's most developed countries.

In terms of land mass, Canada is numero dos in the world right after Russia! Given its sheer size and contributions in the world, you can just imagine how Canada and its domestic currency, the Canadian dollar, are important to the forex world.

Canada: Facts, Figures, and Features

Neighbors: United States of America
Size: 3,855,101 square miles
Population: 33,311,389
Density: 8.6 people per square mile
Capital City: Ottawa
Head of State: Queen Elizabeth II, represented by Governor-General Michaelle Jean
Prime Minister: Stephen Harper
Currency: Canadian dollar (CAD)
Main Imports: machinery and equipment, motor vehicles and parts, electronics, crude oil, chemicals, electricity, durable consumer goods
Main Exports: motor vehicles and parts, industrial machinery, aircraft, telecommunications equipment, electronics, chemicals, plastics, fertilizers, wood pulp, timber, crude petroleum, natural gas, electricity, aluminium, Steve Nash, Sidney Crosby
Imports Partners: U.S. 54.1%, China 9.4%, Mexico 4.2%
Exports Partners: U.S. 78.9%, UK 2.8%, China 2.1%
Time Zones: GMT -8, GMT -7, GMT -6, GMT -5, GMT -4
Website: http://www.canada.gc.ca/home.html

Economic Overview

Canada is considered as a resource-based country, which basically means that most of the economic growth it experienced early on came from the utilization and export of its own natural resources.

According to the IMF, Canada's economy is the eighth largest in the world, making it part of the world's G8. It ranks as the fifth biggest producer of gold and the fourteenth largest producer of black crack.

Despite its robust industrial and manufacturing industry, much of Canada's GDP actually comes from its service sector. Its advanced services sector employs three out of every four working Canadians and account for almost 70% of the country's GDP. Next time you meet a Canadian, go ahead and make a bet with him that he works in the services industry. More often than not, you'll win!

Canada's economy really got going in January of 1989, when the Free Trade Agreement came into effect. The agreement basically removed all the tariffs (that is the tax imposed on trade) between the US and Canada. In effect, Canada now exports as much as 80% of its goods to the US.

Monetary & Fiscal Policy

The Bank of Canada (BOC) is the main governing body when it comes to determining the country's monetary policy. Decisions on the monetary policy are made by Governing Council, which is made up of the bank's governor, the senior deputy and four other deputy governors.

Unlike most other central banks, the BOC doesn't have a set time to make changes on its policies. The council meets every single working day and can alter monetary policy to their liking at any time.

The bank's basic mandate is similar to other central banks in that they aim to make sure that the Canadian dollar's value is stable and that the country's inflation rate is within their 1-3% target. The BOC does this through open market operations and constant adjustment of the bank rate.

The BOC implements its open market operations by using a method called the Large Value Transfer System (LVTS). The LVTS enables commercial banks all over Canada to borrow and lend money to each other so that they could go about their daily operations. Now, the interest rate charged on these transactions is called the bank rate. By altering the bank rate, the BOC can basically control the flow of money in the economy.

To illustrate this, let's say the bank rate is set at 2.00%. In one of its meetings, the BOC realizes that the CAD is losing value much faster than expected, which is causing businesses to increase the prices of goods they sell and the services they offer. The BOC then decides to raise the bank rate to 2.50%.

By hiking the bank rate, the interest needed to be paid to lenders increases, in turn, reduces the likelihood of banks, businesses and consumers of taking additional debt. Now, since there is less money in the pockets of consumers, the chance of them spending is decreased, preventing any further inflation. What business in their right mind would increase prices when nobody is buying, right?

Getting to Know the CAD

You might be wondering why the CAD is nicknamed after Canada's national bird, the Loonie... Well, that's because that's the engraved design on Canada's coins! Check out these other cool properties of the Loonie:

The Black Crack and Me

Historically, the price of black crack has been highly correlated with the USD/CAD. The general rule is that whenever oil prices start climbing, the CAD usually follows. If the price of oil is projected to increase over the next couple of years, then you'd want to go sell the USD/CAD!

My work hours are short...

The USD/CAD has been known to move in tight ranges for the most part of the day. It is only when U.S. traders are eating their Cheerios during the overlap of the European trading session and the US trading session that the pair begins to move.

...unlike my B.F.F., the USD...

A key factor to look at when trading the USD/CAD is that its direction is closely tied to the U.S. economy. Remember, more than being close neighbors, the U.S. and Canada engage in heavy trade with each other. When the U.S. economy experiences robust growth, the Canadian economy is usually just right behind it! So whenever you decide to trade the CAD, take some time off to see how well (or poorly) the U.S. is doing.

...but I'm still feisty during the US session.

The CAD usually doesn't start moving until the U.S. trading session, around 1:00 pm GMT. The CAD offers little movement during the Asian trading session and the morning European trading session.

Important Economic Indicators for the CAD

Consumer Price Index (CPI) - Similar to other central banks, the Bank of Canada's objective is to make sure that inflation does not get out of hand. Since the consumer price index tracks the increase (or decrease) in the prices of consumer goods and services, the report is closely watched by currency traders.

Gross Domestic Product (GDP) - The GDP is the broadest measure of Canada's economic activity. It reveals whether the country is growing or not.

Trade Balance - Just like other commodity-based countries, Canada's economy is highly susceptible to changes in its export and import activities.

Ivey Purchasing Mangers' Index (PMI) - The PMI is a survey designed to see whether businesses are optimistic or pessimistic about the economy. A reading above base line 50.0 means that conditions in the business sector is growing while a reading below 50.0 indicates otherwise.

What Moves the CAD?

U.S. Economic Data

U.S. economic data usually prints roughly at the same time as Canadian data. On the one hand, the negative data from the US coupled with positive data from Canada could lead to a massive drop in the USD/CAD's value. On the other hand, positive U.S. data and poor Canadian data could send the USD/CAD soaring high!

Mergers and Acquisitions

Because of the proximity between the U.S. and Canada, company mergers and acquisitions happen quite often. These cause a huge amount of money to flow between the two countries, which create a significant effect on the foreign exchange market.

For example, in order for a U.S. company to buy out a Canadian company, it must first exchange it's U.S. dollars to Canadian dollars to complete the transaction. Imagine the amount of money that flows through the foreign exchange market just to seal the deal!

Trading the USD/CAD

USD/CAD is traded in amounts denominated in USD. Standard lot sizes are 100,000 USD and mini lot sizes are 10,000 USD.

The pip value, which is denominated in Canadian dollars, is calculated by dividing 1 pip of the USDCAD (that's 0.0001) by the USDCAD's current rate.

Profit and loss are denominated in Canadian dollars. For one standard lot position size, each pip movement is worth 10 CAD. For one mini lot position size, each pip movement is worth 1 CAD. For example, if the current exchange rate of USD/CAD is 1.1000 and you want to trade one standard lot, then one pip would equate to 6.72 USD.

Margin calculations are based in US dollars. With a leverage of 100:1, 1,000 USD is needed to trade 100,000 USD/CAD.

USD/CAD Trading Tactics

Since the USD/CAD is only active during the U.S. trading session, the pair is highly susceptible to fake outs during the other two trading sessions. This means that a break in a significant support level in the USD/CAD during the morning European trading session would, more often than not, simply be a fake out.

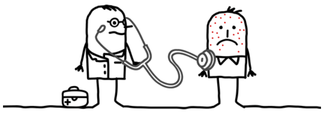
Watching the differences in the results of economic data between the U.S. and Canada is also a great practice to determine where the USD/CAD is headed. Because both and US and Canadian data are released just a few hours or minutes apart, variances in results tend to result in exaggerated one directional moves.

For instance, negative US data coupled with positive Canadian data would be a good reason to sell the USDCAD.

Lastly, beyond looking at economic data, spending some time to analyze oil price behavior would help a lot in trading the CAD.

Since Canada is considered as one of the world's major black crack producers, changes in its price create quite a hefty impact in the CAD's value. In fact, since 1988, the exchange rate of USD/CAD and the price of oil have been inversely correlated by as much as 68%.

How can you use this to your advantage? Well, if you notice that over time that oil prices at your local gasoline station are rising, it could give you the additional confirmation you need to short the USD/CAD.



Australia

Officially known as the Commonwealth of Australia, Australia could be found somewhere in the Southern Hemisphere, just southeast of Asia.

Considered as the world's biggest island, Australia is the only country on earth that governs an entire continent!

Before the coming of settlers from Europe in 1788, Aboriginal people inhabited most of the country.

Since then, people from all over the world have migrated to Australia, which has made it one of the most culturally diverse countries in the world. Now, Australia is home to people from 200 different countries.

Lastly, and probably most importantly, Australia is known for producing the meanest and most hardcore actors of all time like Mel Gibson, the Braveheart; Hugh Jackman, the Wolverine; and Heath Ledger, the Joker!

To add to that, they also have mech-kangaroos, battle tank armadillos, and bomber pelicans. You can see how the rest of the world really had no choice but to name an entire continent after them.

Australia: Facts, Figures, and Features

Neighbors: New Zealand, Papua New Guinea, Indonesia
Size: 2,969,907 square miles
Density: 7.2 people per square mile
Capital City: Canberra (population 323,056)
Head of State: Queen Elizabeth II
Head of Government: Prime Minister Julia Gillard
Currency: Australia dollar (AUD)
Main Imports: Machinery and transportation, electrical and telecommunications equipment; crude oil and petroleum products
Main Exports: Ores and metals; wool, food and live animals; fuels, transport machinery and equipment, Hugh Jackman, Nicole Kidman, Heath Ledger
Import Partners: China 15.4%, U.S. 12.1%, Japan 9.1%, Singapore 7%, Germany 5.1%, Thailand 4.5%, U.K. 4.4%, Malaysia 4.1%
Export Partners: Japan 22.2%, China 14.6%, South Korea 8.2%, India 6.1%, U.S. 5.5%, New Zealand 4.3%, U.K. 4.2%
Time Zone: GMT +10
Website: http://www.australia.gov.au

Economic Overview

Compared to G7 nations, Australia's overall economy is relatively small. According to the World Bank, however, on a per person basis, its GDP is even higher than the U.K., Germany and even the U.S.!

In the past fifteen years or so, Australia's economy has grown an average of 3.6% annually, well above the 2.5% world norm. No wonder it ranked first in the Legatum Institute's 2008 Prosperity Index!

Australia's economy is highly service oriented, with almost 69% of its GDP coming from industries such as finance, education, and tourism.

Despite having a very robust export industry and stellar growth, Australia has been notoriously famous for consistently having a high current account deficit. This means that Australia is using up more resources from other economies to satisfy its own domestic consumption.

Monetary & Fiscal Policy

The Reserve Bank of Australia (RBA) is the main governing body of Australia when it comes to monetary and fiscal policy. The RBA's aim is three-fold:

1. Keep exchange rates stable
2. Ensure growth
3. Maintain full employment

In order to do this, the bank believes that the country's annual inflation rate must be kept within 2-3%. By keeping a tight rein on inflation, the value of their domestic currency is secured, which will eventually lead to sustainable economic growth.

How does the RBA make sure inflation is controlled? Two ways: adjusting the cash rate and conducting open market operations.

The cash rate is the interest rate charged by lending banks on overnight loans to other financial institutions.

Open market operations, on the other hand, is the way the RBA controls money supply through the buying and selling of government loans or other financial assets. With the exception of January, the RBA meets monthly to discuss what changes it will make to monetary policy.

To make this easier to swallow, take this simple example. Let's say that inflation in Australia is increasing much faster than what the bank wants. In order to suppress the high inflation rate, the bank decides to raise the cash rate, which will effectively increase the cost of borrowing by.... uh, borrowers.

Naturally, this move will tone down lending, lessening the overall money in circulation. And basic supply and demand tells us that the scarcer something is, the more valuable it is!

Getting to Know the AUD

Even though they've got their seasons mixed up, the Australians are always up bright and early to play. Well, this is mostly because the Australian market is the first to open every week! Just like the people inhabiting the place, Australia's local currency, the AUD, is called the Aussie.

I'm called a commodity dollar for a reason...

One important characteristic of the AUD is that it has a high positive correlation with gold prices. The reason behind this is that Australia is the third biggest gold-digger... errr, gold producer in the world, with the shiny metal making up more than 55% of their total exports.

This translates to 12 billion AUD per year. As a result, whenever the price of gold rises or falls, the AUD goes along for the ride.

... and I'm one of the best candidates for carry trade.

Among the major currencies, the AUD has been known for having the a high interest rate. This makes it a favorite for carry trade. Carry trade is the practice of buying a currency with a high interest rate in exchange for a currency with a lower interest rate.

I'm only awake a couple of hours a day...

Most of the AUD's movement happens during the Asian trading session, the time when economic data from Australia is released. Unless there's some major news during the European or U.S. trading session, the AUD usually trades in tight ranges.

... but bad weather is one of my worst enemies!

Given the commodity based economy of Australia, unfavorable weather conditions tend to put a serious strain on Australia's growth, which leads to a sell-off in the AUD.

How severely do weather conditions affect the AUD?

Well, let's just say that during the Australian drought of 2002, AUD/USD fell to .4770 - that is almost half its current exchange rate!

Important Economic Indicators for Australia

Consumer Price Index - Because the RBA's primary goal is controlling inflation, the CPI, which measures the overall change in price of consumer goods and services, is closely watched by the bank.

Balance of Trade - Australia has an extremely robust trade sector so currency traders and bank officials alike tend to watch changes in the country's export and import levels.

Gross Domestic Product - This measures how well Australia's economy is doing. Positive readings indicate economic growth while negative readings mean economic contraction.

Unemployment Rate - The unemployment rate tracks how many people in Australia's labor force are out of work. The number of people employed, or rather, unemployed in this cause, has a high correlation with economic activity. A person without a job means he has less money available for spending.

What Moves the AUD

Economic and Interest Rate Outlook

The AUD is greatly affected by macroeconomic factors such as monetary policy rhetoric, interest rates and domestic economic data.

In trading the AUD, always pay special attention to the interest rate outlook. Comments made by officials from the RBA regarding interest rates, for instance, could create a hefty impact on the AUD.

China's Economy

For the better part of the last decade, China has been on a roll, posting some massive growth figures. In order to create finished goods, China sources a lot of its raw materials like coal and iron ore, from Australia.

For China to buy raw materials from Australia, it must first need to exchange its local currency for the AUD. This means that increased demand for Chinese goods tend to prop up the AUD's value.

Likewise, a decline in demand for Chinese products could lead to a fall in the AUD's value.

New Zealand Data

To a lesser extent, data from New Zealand influences the AUD's price action. Take note that New Zealand's economy is very similar to Australia, which makes their currency positively correlated.

In fact, the relationship of the two countries is sometimes described as "Trans-Tasman" to show how closely tied their economies are and to indicate the existence of the Tasman Sea sitting right between them.

With that said, it is important to be aware of important upcoming data from New Zealand as it could indirectly cause the AUD to move.

Trading AUD/USD

AUD/USD is traded in amounts denominated in AUD. Standard lot sizes are 100,000 AUD and mini lot sizes are 10,000 AUD.

The pip value, which is denominated in U.S. dollars, is calculated by dividing 1 pip of AUD/USD (that's 0.0001) by the AUD/USD's current rate.

Profit and loss are denominated in U.S. dollars. For one standard lot position size, each pip movement is worth 10 USD. For one mini lot position size, each pip movement is worth 1 USD.

Margin calculations are based in U.S. dollars. For example, if the current AUD/USD rate is 0.9000 and the leverage is 100:1, 900 USD is needed in available margin to be able to trade on standard lot of 100,000 AUD. However, as AUD/USD rises, a larger available margin in USD is required. Conversely, the lower AUD/USD rate is, the less required available margin is needed.

AUD/USD Trading Tactics

Since the AUD is one of the best candidates for carry trade, which is the buying of a currency with high interest rates and the selling of a currency with low interest rates, AUD/USD is highly affected by crosses.

How can you use this to your advantage?

Well, if you see a break of a significant technical support level in AUD/JPY, that could be a good sign to sell AUD/USD!

Another thing to consider when trading AUDUSD is data coming out from New Zealand. Because of Australia's nearness and trade relations with New Zealand, positive economic data from New Zealand usually helps push the AUD's value up.

This means that better-than-expected New Zealand economic reports could be seen as a good signal to buy the AUD. Conversely, poor economic data from New Zealand could be a reason to sell the AUD.

Lastly, take some time to look at how commodity-prices, especially gold are doing. More often than not, the price of gold leads the AUD.

This means that whenever the gold rises in value, AUD/USD could rally soon after! Of course, when the value of gold falls, the AUD also tends follows suit.

New Zealand

If you've seen the Lord of the Rings, then you probably know that Middle Earth is located somewhere along the hills of New Zealand.

More than being home to Frodo Baggins and his hobbit friends, New Zealand is also one of Australia's next-door neighbors in Oceania, the Southern region of the Pacific Ocean.

The country is made up of two main islands, the North Island and the South Island, and several smaller islands.

Famous for hosting a larger population of sheep than people, New Zealand is home to about four million residents. To put that into perspective, New York alone had a population of 8.4 million people in 2009.

New Zealand is also known as Aotearoa, which means "Land of the Long White Cloud" in Maori, one of the major languages in the country.

New Zealand: Facts, Figures, and Features

Neighbors: Australia, Fiji, Tonga
Size: 104,454 square miles
Population: 4,268,600 (124th)
Density: 40.9 people per square mile
Capital City: Wellington (city population 179,466)
Head of State: Queen Elizabeth II
Head of Government: Prime Minister John Key
Currency: New Zealand dollar (NZD)
Main Imports: machinery and equipment, vehicles and aircraft, petroleum, electronics, textiles, plastics
Main Exports: Russell Crowe, Ores and metals; wool, food and live animals; fuels, transport machinery and equipment
Import Partners: Germany 13.5%, U.S. 10.2%, France 8.1%, Netherlands 6.3%, Belgium 4.9%, Italy 4.7%
Export Partners: U.S. 15.7%, Germany 10.5%, France 9.5%, Netherlands 6.9%, Ireland 6.5%, Belgium 5.6%, Spain 4.4%, Italy 4.4%
Time Zone: GMT +12
Website: http://www.newzealand.govt.nz

Economic Overview

With its teeny-tiny population, New Zealand's economy is also relatively small. Its GDP, which is valued at 182 billion NZD in 2009, ranks 60th among the world economies. But don't underestimate New Zealand... This country makes up for its size by being a strong player in trade!

Their economic activity is largely dependent on trade, mostly with the Land Down Under (Australia), the Land of the Rising Sun (Japan), and Uncle Sam (U.S.). It is an export-driven economy, with its main exports such as ores, metals, and wool comprising a third of its GDP. It also exports much of its cattle and dairy products. Angus beef sound familiar to you?

Its primary industries are agriculture and tourism, and they only have small manufacturing and technology sectors. Because of that, its imports from other countries comprise mostly of heavy machinery, equipment, vehicles, and electronic products.

Since the country has removed many barriers to foreign investment, the World Bank has praised New Zealand for being one of the most business-friendly countries in the world, second to Singapore.

Monetary & Fiscal Policy

The Reserve Bank of New Zealand (RBNZ) is in charge of the monetary and fiscal policy of the nation. Currently headed by Governor Alan Bollard, the RBNZ holds monetary policy meetings eight times a year. The RBNZ is tasked with maintaining price stability, setting interest rates, and monitoring output and exchange rates.

To achieve price stability, the RBNZ must ensure that annual inflation meets the 1.5% central bank target... otherwise the government has the right to kick the RBNZ Governor out of office (We're not kidding).

The RBNZ has the following tools in its monetary policy arsenal:

The official cash rate (OCR), which affects short-term interest rates, is set by the RBNZ Governor. By lending 25 basis points above this rate and borrowing at 25 basis points below the OCR to commercial banks, the central bank is able to control the interest rates offered to individuals and businesses.

Open market operations are used to meet the cash target or the amount of reserves parked in commercial banks. By forecasting the cash target daily, the RBNZ is able to calculate how much money to inject in the economy in order to meet the target.

Getting to Know the NZD

The New Zealand dollar is nicknamed "Kiwi."It's a bird! It's a plane! No, wait, it's really a bird. The Kiwi also happens to be the national symbol for New Zealand... but let's focus on the Kiwi as a currency and its interesting characteristics.

Show me the commodities!

Since New Zealand's economy is mostly dependent on its exports of commodities and agricultural products, the overall economic performance of the region is linked to commodity prices.

If commodity prices rise, then the amount of money paid for New Zealand's exports also rises, which then makes a larger contribution to the country's GDP. Since a higher GDP reflects a strong economic performance, it could lead to an appreciation of the Kiwi.

Conversely, falling commodity prices result to lower monetary value of exports, making a smaller contribution to GDP. A lower GDP could then cause the Kiwi to depreciate.

I move hand-in-hand with the AUD

Since Australia is New Zealand's number one trade partner, the economic performance of Australia has a huge impact on New Zealand's.

For instance, when the Australian economy does well, Australian firms pump up their importing activities and guess who benefits from that? New Zealand, of course!

...and, just like the AUD, I enjoy carry trades!

Just like Australia, New Zealand enjoys higher interest rates compared to other major economies, such as the U.S., the U.K., or Japan.

Interest rate differentials between economies often serve as indicators of money flows. Since investors prefer to receive higher returns, they'd sell lower-yielding investments in exchange for higher-yielding assets or currencies. In other words, the higher the interest rate, the more money flows in.

I'd like more migration, please.

Because New Zealand's population is less than half the number of people living in New York, an increase in migration into the country has a huge effect on the economy. This is because as the population grows, the demand for goods and overall consumption increases.

Oh, I'm weather-sensitive too.

New Zealand's economy is also largely driven by its agricultural industry, which means that severe weather conditions such as droughts have a huge negative impact on their entire economy. Those heat waves are also prevalent in Australia, which is more frequented by forest fires, costing close to 1% of its GDP in damages. This doesn't do the NZD any good...

Important Economic Indicators for the NZD

Gross Domestic Product - Just like any other nation, the gross domestic product (GDP) serves as an economic report card for New Zealand. By serving as a gauge of overall economic performance for the New Zealand, it influences the demand for the NZD.

Consumer Price Index (CPI) - The consumer price index measures the change in price levels. As a measure of inflation, it is closely watched by the RBNZ in determining changes in monetary policy. They're supposed to maintain price stability, remember?

Balance of Trade - Since New Zealand is an export-driven economy, traders often take a look at their trade balance to gauge the international demand for New Zealand's products.

What Moves the NZD?

Economic Growth

Positive GDP growth reflects the strong economic standing of New Zealand, boosting demand for its currency. Negative GDP growth highlights the poor economic performance of the country, dampening demand for the NZD.

Surge in Exports

Higher demand for New Zealand's products often results to a higher GDP, which then boosts the NZD. In contrast, lower exports make a smaller contribution to GDP, causing the NZD's value to fall.

Rising Commodity Prices

Increasing commodity prices causes the monetary value of New Zealand's exports to rise, pushing its GDP higher. Falling commodity prices, on the other hand, cause the monetary value of exports to fall, dragging its GDP down.

Trading NZD/USD

The NZD/USD is traded in position sizes denominated in US dollars.

The pip value, which is calculated by dividing one pip of the NZD/USD (that's 0.0001!) by the current NZD/USD exchange rate.

Profit and loss are accounted in US dollars. On a 100,000 NZD/USD position size, each pip movement is worth $10 while on a 10,000 NZD/USD position size, each pip movement is worth 1 USD.

Margin calculations are based in US dollars. For instance, if the current NZDUSD rate is 0.7000 and leverage is 100:1, 700 USD in available margin is required for a 100,000 NZD position. A 10,000 NZD position requires 70 USD in available margin.

You see, because of the Kiwi's relatively low value against the U.S. dollar, it requires the least amount of available margin among the other majors. That means it's cheaper to trade the Kiwi!

NZD/USD Trade Tactics

Strong economic reports from New Zealand result to an appreciation of the NZD so if there's a good chance that an economic release could beat the consensus, it could be a sign to go long NZD/USD.

Weak economic reports, on the other hand, push the NZD down. If an upcoming report is likely to come in weaker than expected, it could be a chance to short NZD/USD.

Aside from watching economic reports, taking note of commodity price behavior could also serve as trade signals for NZD/USD.

Most of the time, commodity prices surge when demand for riskier assets is strong. During these times, investors place their money in higher-yielding assets such as gold and other commodities and sell the lower-yielding U.S. dollar. As a result, the commodity-based Kiwi gains strongly against the safe-haven US.. dollar.

On the other hand, when risk aversion forces investors to flee back to the safe-havens, the NZD edges lower against the USD.

Just like the AUD, the NZD is also a good candidate for carry trade. Since carry trades involve buying of a currency with high interest rates and selling of a currency with low interest rates, New Zealand's relatively high interest rate provides support for the NZD.

Switzerland

Switzerland was founded in 1291 and is located in the middle of western Europe and shares much of its history and culture with Germany, Austria, Italy, and France.

Although being right smack in the middle of Europe, Switzerland is not part of the European Union. While there were talks between the EU and Switzerland in the mid 1990s, the Swiss public rejected the proposal to be part of EU. Since then, Switzerland has maintained its economic independence.

Switzerland is considered to be a small country, but let us tell you that it is PACKED! It has a population of about 7.78 million, with around 477 people per square mile.

Switzerland is also known for its neutrality as it has refrained from participating in either of the two World Wars.

Switzerland: Facts, Figures, and Features

Neighbors: Germany, France, Italy, Austria
Size: 15,940 square miles
Population: 7,779,200
Density: 477.4 people per square mile
Capital City: Bern
Head of Government: President Doris Leuthard
Currency: Swiss Franc (CHF)
Main Imports: Machinery and transport equipments, medicinal and pharmaceutical products, other chemicals, manufactured goods
Main Exports: Chemicals, clocks and watches, food, instruments, jewelry, machinery, pharmaceuticals, precious metals, textiles, Rolex, Roger Federer
Imports Partners: Germany (27.7%), U.S. (10.6%), Italy (10.3%), France (8.4%), Russia (4.4%), U.K. (4%)
Exports Partners: Germany (21.2%), U.S. (8.7%), France (8.2%), Italy (7.9%), Austria (4.5%)
Time Zones: GMT + 1
Website: http://www.switzerland.com/en.cfm/home

Economic Overview

Switzerland is one of the richest countries in the world in terms of per capita income (that's total GDP divided by the country's population).

In 2009, it produced $488 billion in total output. As small as it is, on a per person basis, it boasts of a GDP of $43,195, which is seventh highest in the world.

Its main trading partners are Germany, the U.S., France, Italy, Austria, Russia, and the U.K. Like Japan, Switzerland is also highly dependent on its exports, which make up about $247.2 billion or 50.2% of its GDP.

Switzerland's main industries are machinery, chemicals, textiles, precision instruments and watches. Don't laugh at that last one - it actually comprises a decent chunk of Switzerland's output! Anyway, it's time to move on!

Monetary & Fiscal Policy

The Swiss National Bank (SNB), which is presently chaired by Mr. Philip Hildebrand, conducts the nation's monetary policy by influencing the country's monetary and credit conditions.

The Governing Board, which is responsible for determining the bank's policies, consists of 3 members - the Chairman, Vice Chairman, and a third member. That's right - only three people are part of the board!

Unlike most central banks, the SNB sets a target range for its desired interest rate (also called Libor) rather than a fixed figure for three months.

On top of its purpose to control the country's money supply and influence interest rates, the SNB has a more on-hand role in keeping the CHF's valuation stable.

An excessively strong CHF could cause inflation to spike and could also undermine the country's exports. With Switzerland's strong reliance on their exports, the SNB, favors a weaker CHF and does not hesitate to intervene in the forex markets to weaken it.

One of the major monetary policies of the SNB is inflation targeting. The bank's inflation target, which is monitored in the CPI, is below 2% a year.

The bank will then attempt to influence the country's actual inflation rate through open market operations and by adjusting the Libor rate.

Speaking of open market operations, the bank influences the Libor rate through short term repurchase (repo) transactions. A repo transaction involves selling of a particular security for cash and agreeing to repurchase the same security at a later date.

If the interest rate in the open market rises over the SNB's desired band, the central bank will supply the other banks with more liquidity through repo operations at lower repo rates.

On the other hand, the SNB can reduce liquidity by increasing the repo rate, eventually increasing the Libor rate as well.

On the fiscal side, one attractive fiscal policy that Switzerland has is that they have some of the lowest tax rates among developed nations. In fact, it is often referred to as a "tax haven" nation.

Corporate tax rates in Switzerland run from 8.5% to 10.0%. This, in addition to its bank secrecy laws, make Switzerland one of the most business-friendly nations in the world.

Getting to Know the CHF

Not too long ago, France, Belgium, and Luxembourg also termed their currencies as francs... until they adopted the cooler euro, that is. At present, Switzerland is the only one using the franc as its currency, the Swiss Franc (CHF).

Among financial geeks, the Swiss Franc is known as the "Swissy".

Thanks to Switzerland's neutrality...

Switzerland is considered to be politically neutral due to its bank secrecy laws, giving the CHF a "safe haven" status as well. Usually, during times of economic uncertainty, investors move their funds into Switzerland, causing the CHF to gain in value.

I'm still stuck in the bling-bling era!

Not only do the Swiss refuse to join the "cool kids" of the EU, but they are also the only country that still adheres to a gold standard.

About 25% of the country's money is backed with gold reserves, giving the CHF an 80% correlation with the price of gold. This means that whenever the price of gold rises, the CHF could stand to benefit as well.

Important Economic Indicators for the CHF

GDP - The Gross Domestic Product (GDP) is the measure of the country's total value of all final goods and services. The report gauges the change in the economy's total output from the previous period.

Retail sales - The headline retail sales report measures the monthly change in the total value of sales at a retail level.

Consumer Price Index (CPI) - The CPI measures the change in the prices of a basket of goods and services. The CPI is followed closely by the SNB, as it uses the report to help in its inflation analysis.

Balance of Trade - The balance of trade measures the total difference in value between exported and imported goods in the country. Switzerland has a very robust export industry so traders often use the country's trade balance to measure how well the economy is faring.

What Moves the CHF

Price of Gold

As mentioned earlier, the CHF has an 80% correlation with the price of gold, as 25% of Switzerland's cash is backed with gold reserves. When gold prices go up, the CHF usually goes up as well. Conversely, when gold prices slide, the CHF likewise declines.

Developments in the Euro Zone and the U.S.

Since Switzerland is an export-dependent country, it is vastly affected by the economic development of its major trading partners in the euro zone and the U.S. Switzerland's major export partners in the euro zone are Germany (21.2%), France (8.2%), Italy (7.9%), and Austria (4.5%).

The U.S., meanwhile, takes about 8.7% of Switzerland's exports. Poor economic performance in any of these countries could mean less business for Switzerland.

Sortin' Out the Rough Edges

Political tension in its neighbors in Europe, particularly in the euro zone, could cause traders to seek the safety of the Swissy.

Remember that the euro zone is a brood of 16 states with the ECB directing and implementing a set of monetary policies for the entire group.

Given that the economies of the member-countries grow at different paces, ECB policies sometimes go against what a single nation needs at that specific time.

The X-factor

USD/CHF is also affected by the cross exchange rates like EUR/CHF. A jump in the EUR's valuation due to a hike in the ECB's interest rate, for example, could spill the Swissy's weakness onto other currency pairs like USD/CHF.

Merger and Acquisition (M&A) Activities

Switzerland's main industry is banking and finance. Merger and acquisition (M&A) activities, or simply the buying and selling of firms, are very common.

How can this affect the spot prices of the CHF?

For example, if a foreign firm wishes to acquire a business in Switzerland, it will have to pay for it using CHF. On the other hand, if a Swiss bank, for example, wishes to purchase a US firm, it will then have to dump its CHF for the USD.

Trading USD/CHF

USD/CHF is traded in the amounts denominated in USD. Standard lots sizes are $100,000 while mini lot sizes are $10,000.

The pip value, which is denominated in CHF, is calculated by dividing 1 pip (0.0001) by USD/CHF's rate.

Profit and loss are denominated in Swiss francs. For one standard lot position size, each pip fluctuation is valued at 10 CHF. For one mini lot position size, each pip fluctuation is worth 1 CHF. To illustrate, if the prevailing market rate of USD/CHF is 1.0600 and you want to trade one standard lot, then one pip would be equivalent to 9.4340 USD.

Margin calculations are typically in USD. At 100:1 leverage, you need $1,000 to control 100,000 units of USD/CHF.

USD/CHF Trading Tactics

The Swissy pairs (USD/CHF and EUR/CHF) are usually active during the European trading session only. Both currency pairs tend to be range-bound most of the time. Given this, they are mostly susceptible to sudden spikes and breakouts.

As we mentioned earlier, the SNB is very much keen on monitoring the valuation of the Swissy. It is notoriously known to intervene in the forex market to weaken the CHF especially when it reaches some historical key levels.

For example, if USD/CHF falls back to its yearly low due to an increase in risk appetite, the SNB could just be lurking around to push the pair back higher.

You could also trade the Swissy by monitoring the economic fundamentals of its major trading partner, the euro zone. Any economic or political tension in the euro zone could lead investors back to the safety of the Swissy.

Given this, currency crosses like EUR/CHF could also be used to trade, for example, the USD/CHF. A rate hike by the ECB which boosts EUR/CHF could also spill over on USD/CHF.