

Forex Trading Version 2

Learning exercises on USD/CNH pair

<http://www.investopedia.com/university/forexmarket/>

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Lessons learned from Version 1

- Stop Loss technique is better than Peace of Mind Technique.
 - Decision has to be made sooner or later. Careful thinking before order including Stop Loss is better than watching the market to make decisions.
- Focus on One Pair in the learning process is better.
 - Watching two “15 Min” charts simultaneously causes confusion.
- The USD/CNH graph clearly indicate Open position to bet the currency pair going up (RMB devalues) is superior.
 - Open and wait makes much more profit than multiple up and down trades.
- Trade with virtual money is essential in the Learning Process.

Currency Quote Overview

| Currency Quote Overview | | |
|-------------------------|---|--|
| USD/CAD = 1.2232/37 | | |
| Base Currency | Currency to the left (USD) | |
| Quote/Counter Currency | Currency to the right (CAD) | |
| Bid Price | 1.2232 | Price for which the market maker will buy the base currency. Bid is always smaller than ask. |
| Ask Price | 1.2237 | Price for which the market maker will sell the base currency. |
| Pip | One point move, in USD/CAD it is .0001 and 1 point change would be from 1.2231 to 1.2232 | The pip/point is the smallest movement a price can make. |
| Spread | Spread in this case is 5 pips/points; difference between bid and ask price (1.2237-1.2232). | |

Notes:

- (1) If expect the rate to increase,
- (2) Buy at Ask price (RHS figure).
- (3) Known as LONG open position.
- (4) Wait for rate to increase.
- (5) Close by Sell the pair at Bid price.

Notes:

- (1) If expect the rate to decrease,
- (2) Sell at Bid Price (LHS figure)
- (3) Known as SHORT open position.
- (4) Wait for rate to decrease.
- (5) Close by Buy the pair at Ask price.



Existing position:

- (1) Should only focus on Long position
- (2) Rate increase = RMB devalue
- (3) Take Hedge Fund side and
- (4) Force Central Bank of China to take Meaningful, Effective Action!**
- (5) If Bought at 6.2000 in Aug 2015, gain = 6600 PIPs. (not considering daily premium)
- (6) If Bought at 6.4800 in Mar 2015, gain = 3800 PIPs

Note:

- (1) The Chinese YUAN or RMB is being attacked by Hedge Funds. Drain Reserve and go for the kill.
- (2) The pair should go up if the Hedge Funds are right. Many predict rate will go above 7.0.
- (3) Central Bank of China has no winning strategy. Reserve is being drained.
- (4) Long term strategy is to LONG. Buy the pair and wait for rate to increase.
- (5) This is **TREND** trading. One trader claimed that he could turn 200K to 5M in 6 months.

Significance of the USD/CNH graph (1)

- The RMB was depreciating from 1USD=6.20RMB to USD=6.86 over the period from Aug 2015 to Feb 2017. (say 18 months)
- If an investor Opened the pair at 6.20 and kept it, he would have gained 6,600 PIPs.(6.8600-6.2000)
- If his PIP were to worth HK\$100, he would have gained HK\$660,000.
- If he had used a leverage of 200:1, with a unit volume of 1m, the money put down (initial margin) was approximately 20K. (The demo account starts with 200k)
- In other words, he would have earned a profit many times his investment. The daily interest(premium) is around 4PIPs. Total around 2,160PIPs. Actual profit would be 4,440PIPs or HK\$444,000!

Significance of the UD/CNH Graph (2)

- If some one is making such money, who is losing the money?
- The FORX Market is a zero sum game. This means if some one wins 1 unit, somebody else must lose 1 unit.
- In a Market, there is buying and selling, the rate will go up if there were more people selling RMB for the Dollar. In other words, the RMB will devalue.
- The Hedge Funds are predicting the RMB will devalue. They are the major sellers of RMB. (Calculating Forex Traders like me also).
- Who are the buyers? Central Bank of China (and uneducated traders)? That is how the Chinese Foreign Currency Reserve keeps falling.

Significance of USD/CNH graph (3)

- In any gambling, the side with more money is likely to win.
- The Hedge Funds sell more RMB, the Central Bank of China buys most of these RMB (with USD from Reserve eventually).
- If Central Bank of China does not take action, the CNH (Offshore) exchange rate will go up very fast (or offshore RMB will depreciate fast).
- The daily gain was 8PIPs. $(6600/(18*30)-4)$ or HK\$800 in the example.
- Does the Central Bank of China know that they are losing the Economic War?

Significance of USD/CNH graph (4)

- One Forex Trader boasted that he could turn the virtual money of 200K to 5m within 6 months.
- If he were to have bought the pair at 6.2000 with 10K, he would have 200K.
- If he committed only 100K, he could have 2,000,000.
- He can increase the number of units after profit.
- Thus turning 200K to 5m with such a “Hedge Fund setup game” is not an outrageous claim.
- If more Forex Traders know it, there will be more sellers of virtual RMB. There is no way for the Central Bank of China to prevent an Offshore RMB devaluation. (Will such virtual devaluation turn into real?)

Exercises

- Use the USD/CNH graph again.
- If the Calculating Forex Trader bought the pair in Jan 2016 and kept, how much would he have made?
- Another group can start in Feb 2016; Mar 2016... Sep 2016 etc.
- Do more paper trading using historic data with the strategy.
- If a new strategy were to be tried, apply it to the various periods in the historic data.
- Why is trading the USD/CNH pair more profitable than the AUD/USD pair?

Questions (1)

- What is the purpose of publishing the above information?
 - Let China know how the Hedge Funds are winning. China must not continue the present path of draining the Reserve.
- Can an average person make some quick money now?
 - Yes. Open a Forex account. Bet on USD/CNH. Bet on the rate to go well beyond 7.5. Pay the daily interest (premium).
- If China really decides not to play, what will happen?
 - The offshore currency rate will sky rocket. Rising beyond 7.5 is to be expected. Winning a thousand PIPs or more is to be expected.

Questions (2)

- If I am only willing to bet HK\$10,000, how should I play?
 - Get like-minded people, form an investment club. Have at least HK\$300,000. Commit no more than \$40,000 Margin on the Open order. Use the rest to pay interest (premium). Expect the premium will cost HK\$1,000 a day.
- How much would I expect from the above earnings?
 - Assume a conservative gain of 1,000 PIPs, the total earnings should exceed HK\$200K. Your share should exceed HK\$6,000.
- Will this opportunity last forever?
 - No. It will only last when China stupidly plays into the hands of the Hedge Funds. (Real enemy is US Government!) Expect China to take drastic action.

Questions (3)

- What would you expect China to do?
 - Drastically change the function of the Offshore RMB settlement centers.
 - Bilateral Agreements with trading Nations.
 - Rigidly peg the RMB to USD again at the exchange rate set by China.
 - Control Capital inflow and outflows.
- Does that mean going backwards?
 - Fall back on what works. Continue draining the Reserve is slow suicide.
- Losing the Economic War will go the fate of USSR – disintegration of the Nation. Citizens will no longer believe in the Government. Communist Party will self- destruct.

Question (4)

- In the example, a trader makes 12PIPs per day but have to pay premium of 4 PIPs per day.
- The gain is only 8PIPs in the ideal situation.
- The FOREX Broker or exchange pockets 4PIPs.
- Should one consider the FOREX Broker Business?
 - There are Companies specializing in helping people to go into the FOREX Broker Business.
 - They help to do the initial setup and monthly maintenance for a fee.
 - If Volume of transaction is low, lose money.
 - Calculating Traders will be like Card Counters and “destroy” you!

Questions (5)

- Currency Exchange is meant for trade and travel.
 - It is not supposed to be used for speculation.
 - The loss in speculative trading can drain the Reserve of a Nation in the tune of Trillions USD!
- China should introduce a new Game. (Just peg to the Dollar and accept the Dollar as the default Settlement and Reserve Currency).
- What is a possible new Game?
 - USA Camp and China+Russia Camp to embark on Competition to get poor Nations Developed.
- If a Nation wants to be rich and remain rich, help others to get rich.