

Forex Trading Version 5

Learning exercises on USD/CNH pair

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

<https://www.dailyfx.com>

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JAN 1, 2018

Currency Quote Overview

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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 2016, gain = 3800 PIPs

Note: **Graph showed RMB depreciating.**

- (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 1M in 6 months.



This graph 2 was taken on Dec 30, 2017.

Arrow showed **RMB appreciating against the US Dollar** from around Dec 13, to Dec 29.

The “Open Order” was placed on Dec 13 to sell USD at 6.62000.

The “Close Order” was placed on Dec 29 to buy USA at 6.52000.

The gain was 1000 PIPs.

Each PIP was worth HK\$100, Thus gain was HK\$100,000. Initial capital was HK\$200K.

Key concept behind Forex Gambling

- Daily fluctuation on Exchange Rates small (usually much less than 1%)
 - Forex Brokerage Firms offer leverage to magnify the gain or loss.
 - Leverage from 20 to 200 common.
 - If guessed correctly, HK\$1,000 gain becomes HK\$200,000.
- Compared with dice/card gambling, one can get hints before betting.
 - Some International Events point clearly to result.
 - Brazil had meat problems, exchange rate dropped.
 - USA invaded Iraq, Iraqi currency devalued.
 - Trump upset Arabs. The Rich Arab States exchange USD for other currencies.
- Don't bet when no news. (Card Count not favorable!)

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 Jan 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) Buy at 6.20 and sold at 6.86.
- If each PIP were worth HK\$100, he would have gained HK\$660,000.
- If he had used a leverage of 200:1, and an initial capital of 200K, he would have gained 660K. (Many demo accounts start with 200K. An investor should use similar amount.)
- Note that he only needed to execute ONE trade to make that profit.

Significance of the USD/CNH Graph (1)

- If someone is making such money, who is losing the money?
- The FOREX 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 were predicting the RMB will devalue. They were the major sellers of RMB between Aug 2015 to Dec 2016.
- Who are the buyers? Central Bank of China (and uneducated traders)? That was how the Chinese Foreign Currency Reserve lost USD1Trillion.

Significance of USD/CNH graph (1)

- 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).
- Did the Central Bank of China know that they were losing the Economic War?
- China changed rules – no longer dictated by Market Forces...

Significance of USD/CNH graph (1)

- One Forex Trader boasted that he could turn the virtual money of 200K to 2m within 18 months.
- Can he possibly be right with the graph 1 situation?
- If he guessed wrong, he would have lost the entire 200K from a Margin Call.
- Was there any period that he might have lost his entire 200K?
 - A conservative Bank put 1m in account and used only 200K to trade.
- Working out the Margin Call will be the next exercise...

Exercise 1

- Use the USD/CNH graph 1 again.
- If the Calculating Forex Trader bought the pair in Jan 2016 and sold in Nov 2016, 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.
- What are the News at the low and high points on the graph?
- If a new strategy were to be tried, apply it to the various periods in the historic data.
- Is trading the USD/CNH pair more profitable than the AUD/USD pair?

Exercise 2

- Use Graph 2
- If you bet that RMB would depreciate against the US Dollar, and sold at 6.66000 on Oct 1, 2017, how many PIPs would you have gained or lost on Dec 29, 2017?
- If you bet that RMB would appreciate against the US Dollar, and bought at 6.66000 on Oct 1, 2017, how many PIPs would you have gained or lost on Dec 20, 2017?
- If you can only afford the loss of 200 PIPs (HK\$20,000), what would have been your gain or loss from Oct 1, 2017 to Dec 20, 2017, assuming you trade every month (assume you guessed RMB appreciate and then Depreciate).

Summary

- If you really understand the Forex Gambling Game:
 - **You read and wait for the right International events.**
 - You can predict or guess the outcome before placing the bets!
 - You can control your emotions.
 - You have more than enough money to gamble.
 - (One “Organization” has 1m in account but risks only 200K).
- You can check or follow the trading records of those “tutors” who claim to turn 200K to 1m in a year at Open Seminars.
- You bet at the more “reputable” Forex Casinos.
- Many Investment Banks or Fund Managers will employ you (show records).
- Chance of your making a few million **before the rule changes** is high.