Forex Day Trading For Beginners

Guide

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Forex day trading involves exchanging one currency for another to make a profit from short-term fluctuations in exchange rates. This **guide to forex day trading** explains what the foreign exchange market is, which currencies you can trade, and how to start day trading forex online.

Quick Introduction

- The foreign exchange (forex or FX) market facilitates the **buying** and **selling** of currencies.
- Currencies are traded in **pairs**. The price tells you how much of the quote (second) currency is needed to buy one unit of the **base** (first) currency.
- Currencies can be day traded at the **spot rate** (current exchange rate) or through **derivatives**.
- To start day trading forex you will need to open an account with a forex broker and develop a strategy.

What Is The Forex Market?

The foreign exchange (forex) market is the biggest and busiest financial market on the planet. It has grown rapidly in recent decades and, according to the Bank for International Settlements, daily trading volumes in the currency market stand at a whopping **$7.5 trillion**.

Some of the key participants in the forex market include:

- **Banks and financial institutions**, whose broad range of services include providing foreign exchange services, executing cross-border payments, and managing clients' investments. Some banks also carry out their own speculative trades from in-house dealing desks.
- **Central banks**, who get involved to influence their own currency's value and to meet their monetary policy targets.
- **Multinational companies**, who convert overseas profits into their domestic currencies and seek to hedge the risk associated with exchange rate movements.

- **Hedge funds**, which aim to profit from price movements and arbitrage opportunities (in other words price discrepancies across different markets).
- **Retail traders**, who – using the services of an online broker – speculate that the value of a currency will rise or fall in relation to another.

Speculators are by some distance the most active participants in currency trading. It is estimated that around **90% of daily volumes** are driven by speculation rather than for practical purposes.

How Forex Trades Work

Currencies are traded in **pairs.** This means that when a day trader bets that a currency will rise in value against another, they are buying that counter (known as the **base** currency) and selling the other (known as the **quote** currency).

Conversely, if they think a currency will fall and therefore choose to go **short**, they will sell the base currency and buy the quote currency. Because a forex trade is a two-way transaction, a trader needs to have a good idea of the relationship between both currencies and what could drive their price dynamic.

The EUR/USD is a popular example of a currency pair. Here, the euro is the base currency and the US dollar is the quote currency. It indicates how many euros I can get for a single buck.

Let's say that the EUR/USD currently sits at 1.1000. At current prices **€500** would get me **$550** (excluding any charges).

If a trader thinks the euro will appreciate against the dollar, they will open a position where they simultaneously go **long** on the euro and **short** the buck. If the exchange rate rises from 1.1000 they will make a profit.

> *Movements in currency pairs are measured in **pips**, which stands for 'percentage in point' or 'price interest point.' Like EUR/USD, the majority of pairs are quoted at four or five decimal places.*

When searching for the price of a forex pair a trader will see two prices. These are the **bid** price, the price at which a trader can sell a forex pair, and the **ask** price, which is the price at which a trader can buy a currency pair.

The difference between these two prices is known as the **spread**. It is also measured in pips, and illustrates the profit a broker will make on a specific transaction. Day traders need to pay close attention to this: **large spreads can eat into profits**.

The above chart shows eToro's bid and ask prices on the EUR/USD pairing. At the time of writing, the bid price sat at 1.08121 and the ask price at 1.08132. This resulted in a spread of **11 pips**.

Ways To Day Trade Forex

There are two main ways that investors can day trade on the foreign currency market:

1. Spot Trading

This is the most popular way that forex traders operate. It involves trading one currency for another at the **spot rate** (in other words, the current exchange rate).

2. Derivatives Trading

Similar to other markets, this sees traders speculate on the movement of forex pairs without actually buying or selling any underlying assets.

Retail traders primarily use contracts for difference (CFDs) to do this. This type of instrument uses leverage, in other words, money borrowed from a forex trading platform. As a result, a trader is able to control a larger position with only a small amount of capital.

A Forex Trade In Action

Steve decides he is bullish on the euro versus the dollar. He decides to trade the EUR/USD pair at 1.1 and selects a standard lot size of 100,000 units.

After a short while the pair moves to 1.1057, resulting in a 57-pip gain. At this point Steve decides to exit his position, booking a profit of €518.18 in the process.

The profit he made can be worked out using the following calculation:

- **Lot Size**: 100,000
- **Change In Exchange Rate**: 1.1057 – 1.1 = 0.0057 (or 57 pips)
- **Pip Value**: (0.0001 / 1.1) * 100,000 = €9.0909
- **Profit**: €9.0909 * 57 pips = €518.18

❗ *Note that this is a simplified calculation, and does not take into account bid and offer spreads or potential fees.*

Which Currencies Can You Day Trade?

There are 195 separate countries spanning the globe, and almost as many currencies are traded today. However, trading on forex markets is dominated by a handful of pairs, which – along with the EUR/USD – include:

- USD/JPY – the US dollar and Japanese yen
- GBP/USD – the British pound and US dollar
- USD/CHF – the US dollar and Swiss franc
- AUD/USD – the Australian dollar and US dollar
- USD/CAD – the US dollar and Canadian dollar

These forex pairs are known as the **majors** due to their high trading volumes, strong liquidity, and tight bid and offer spreads. In total, they account for more than 60% of all forex market trades.

As you can see, these pairings involve some of the world's biggest and most influential economies. Their popularity is thanks in part to the economic and political stability in these countries. It is also because forex traders can locate key news and data for these territories more easily.

Major pairings are also so-called as they can be used by day traders, economists and market commentators to gauge the broader health of the world economy. They can provide a snapshot of the general mood of financial markets, too.

For example, the value of the US dollar, the Japanese yen and the Swiss franc are considered ‘safe haven’ currencies. They may therefore rise in value when the market is becoming nervous about the macroeconomic or geopolitical landscape.

On the other side of the coin sit the **minor** pairings. They are traded in much lower volumes and, as a consequence, they can have much wider bid and offer spreads than the majors.

Pairs that involve more exotic currencies – in other words, counters from smaller and/or less-developed economies – can also be highly volatile. Currencies from this category include the Turkish lira, Brazilian real and Polish złoty.

See live forex rates here.

What Moves Currency Markets?

Global financial markets are closely connected. The relationship between foreign exchange, stocks, bonds, commodities and other markets is highly complex, and large movements in one market can have a marked impact on others.

Some of the wide range of factors that can drive currency pair movements include:

Interest Rate Changes & Monetary Policy Announcements

Central banks have the greatest influence on how the forex market moves. When interest rates rise in a country or economic area (like the eurozone), the local currency will attract more cash and rise against another that offers a lower return.

Interest rate meetings, and the accompanying minutes that can give clues on the future direction of borrowing rates, are therefore studied closely by the market.

Economic & Political News

A wide selection of **economic data** can shake the direction of currency pairings. Inflation, GDP, employment, retail sales, trade balances and purchasing managers' index are major drivers of market prices.

Political news that affects certain countries, regions or the entire globe can also impact forex prices. These include elections, trade deals, referenda and policy announcements.

Economic and political developments can also shake up currency prices if they impact broader market sentiment. As mentioned, the likes of the US dollar can rise when traders and investors are feeling nervous. At the opposite end of the scale, currencies like the Australian dollar and South African rand – counters that are closely linked to commodity prices – can rise when risk appetite picks up.

Natural & Man-Made Disasters

Sudden crises often cause market participants to rush to sell a certain currency. The effects can be temporary and reflect a knee-jerk reaction. Or a counter can remain under pressure for a sustained period afterwards.

Russia's ruble, for example, dived in value against most currencies following the country's shock invasion of Ukraine in 2022. The safe-haven Swiss franc rose against the US dollar following the 9/11 attacks, while Japan's yen experienced broad-based weakness after the Fukushima nuclear plant disaster in 2011.

How To Start Day Trading Forex

To start day trading forex online follow these three steps:

Step 1: Learn how forex trading works

Our beginner-friendly guides and educational resources can help you understand the basics. We also recommend using a forex demo account to practice forex trading in a risk-free environment.

Step 2: Sign up with a forex broker

You will need to open a real-money account with a forex broker to start trading. We only recommend forex brokers for day trading that we trust and that offer reliable platforms, low fees, and excellent education for new currency traders.

Step 3: Build a strategy

To make money trading forex online you need to develop, test and refine a strategy. This will help you decide which currencies to trade, and when.

Pros & Cons of Forex Day Trading

For retail investors, participating in the foreign exchange market carries a range of advantages and disadvantages. These include:

- ✔ Trades can be placed 24 hours a day, five days a week. This provides excellent flexibility and means participants don't have to worry about things like exchange opening times.
- ✔ Most of the top forex day trading brokers offer a vast range of currency pairings to trade. More choice equals more opportunities to make a profit.
- ✔ High liquidity means that day traders can enter and exit positions quickly.
- ✔ The costs and fees associated with forex trading are usually much lower than those of other financial markets. In fact, some brokers operate on a 'zero commission' basis.
- ✔ Traders can get much higher levels of leverage through margin trading. This can amplify gains by providing a trader with more capital. But beware: it can also multiply losses if a trade goes wrong.

- ✘ Forex prices can be highly volatile and movements are hard to predict. Whilst this presents opportunities to make a profit, it can also open the door to losing a lot of money.
- ✘ Forex trading is complex and requires a solid knowledge and understanding of fundamental and **technical analysis** (the method of forecasting price movements using charts and data). Those who have neither the time nor resources to become experts leave themselves open to making large losses.
- ✘ The health and performance of a specific currency are tied closely to those of the issuing country or region. So signs of economic or political turmoil can cause a counter to plummet. This is a particular danger for developing nation currencies.

Strategies

There are multiple short-term strategies that day traders can use to try and make a profit on the foreign exchange market. They are differentiated by the length of time that an individual holds a position, and come under the following categories:

Scalping

This is where trades last for only a matter of minutes, maybe even seconds. Forex traders aim to profit from tiny price movements by making a number of short-term transactions each day so the gains add up.

Day Trading

This involves opening and closing a position on the same day, thus eliminating the risk from wild overnight price moves. Forex trades here tend to last hours, and market participants use a mix of fundamental and technical analysis to make their decisions.

Position Trading

The strategy of choice for patient investors who don't wish to constantly monitor the forex markets. This method sees individuals hold a position for weeks, months, and possibly even years. They will consider price trends using fundamental analysis and long-term charts.

Swing Trading

This path sees forex traders hold their positions from several days to a number of weeks in order to capture larger price movements.

Terminology

To succeed with forex trading, you need to understand the meaning of some key terms:

- **Pip** – A unit of measurement that shows the change in value between two currencies
- **Spread** – The difference between the bid price and ask price. The fluctuation between the two prices is a key indicator of liquidity
- **Bid** – The price that an investor is willing to pay for an asset. The bid price is normally higher than the current price
- **Ask** – The price that an investor is willing to sell an asset for. The ask price is usually lower than the current price
- **Current Price** – The actual price of an asset on an exchange. The current price on your forex trading platform takes supply and demand into account which is why you may see a difference
- **Base** – The first currency listed in a forex pair. For instance, when trading the USD/EUR pair, the US Dollar is the base currency
- **Quote** – The second currency listed in a forex pair. In the example above, the Euro is the quote currency
- **Lots** – The denomination that forex is traded in. One standard lot has 100,000 units of the base currency. A micro lot has 1,000 units
- **Major Pairs** – Seven common pairs all of which contain USD as the base currency or counter currency with one of the following; GBP, EUR, JPY, NZD, AUD, CAD, CHF
- **Minor Pairs** – Also known as cross pairs. These are made up of any two major currencies which do not contain the US Dollar as the base or counter currency, such as the GBP/AUD, CAD/NZD, or EUR/CAD
- **Exotic Pairs** – Highly liquid pairs made up of thinly traded currencies such as the South African Rand or the Polish Zloty. These can be very volatile
- **Leverage** – A “loan” provided by a forex firm to a retail trader. The loan increases buying power and therefore potential profits and losses. Forex leverage is typically expressed as a ratio, which demonstrates how large a position you can open compared to the margin. For example, a leverage of 1:30 means that a retail investor can open a position 30 times the size of their initial stake

Note, some of the phrases in this forex trading jargon buster are explained in more detail elsewhere in this guide.

FAQ

How Does Forex Trading Work?

Forex day trading works by exchanging one currency for another – traders effectively buy one currency and sell the other at the same time. This is why currencies are traded in pairs, the most popular of which include the USD, and are known as the 'majors'.

If you correctly predict which currency will appreciate or depreciate in value, then you can make money from the short-term trade.

Is Forex Day Trading Legal?

Forex day trading is legal in most countries. In the US, it is regulated by the National Futures Association (NFA) and the Commodity Futures Trading Commission (CFTC). In the UK, forex trading is regulated by the Financial Conduct Authority (FCA). In Australia, it is regulated by the Australian Securities & Investments Commission (ASIC). In Europe, forex brokers must comply with the MiFID Directive.

What Do I Need To Start Day Trading Forex?

To start day trading forex, you need to sign up with an online forex broker. They will provide a platform that connects you to the forex markets so you can analyze prices and place buy and sell orders.

To trade forex successfully, you also need to have a good understanding of how the foreign exchange market works, plus an effective short-term trading strategy. Our guide to forex day trading online can help you get started.

When Can You Day Trade Forex?

Forex trading times vary. With that said, key forex markets follow a schedule. The London and European session starts at 07:00 GMT, the New York session begins at 12:00 GMT, the Sydney session starts at 21:00 GMT, and the Tokyo session begins shortly after at 23:00 GMT, before closing at 08:00 GMT.

Trading forex during crossover periods often provides the best opportunities for day traders with sufficient volume and price action.

Recommended Reading

- A Guide To Day Trading The Non-Farm Payrolls (NFP) Report
- Alternatives To Forex Trading
- Automated Forex Trading
- Best Forex Day Trading Apps 2024
- Best Forex Demo Accounts
- Best Forex Rebate Brokers
- Best Forex Trading Books – The Top 5 Forex Books 2024
- Best Forex Trading Platforms And Brokers In 2024
- Best Forex Trading Platforms For Beginners
- Chinese Yuan (CNY)
- Fibonacci Forex Trading
- Forex Bonuses 2024
- Forex Futures
- Forex Index Trading
- Forex Rates
- Forex Robots
- Forex Screener
- Forex Signals
- Forex Trade Copier
- Forex Trading Accounts
- Forex Trading in Brazil
- Forex Trading in Denmark
- Forex Trading in Mexico
- Forex Trading in Thailand
- Forex Trading On Margin
- Forex Trading vs Binary Options
- Forex Trading With MetaTrader 4
- Forex Training Courses
- Forex Weekend Trading
- Fundamentals of The Swiss Franc (CHF)
- How To Avoid Forex Trading Scams
- Indian Rupee Trading
- Live Forex Trading
- Professional Forex Traders
- Richest Forex Traders
- Short Selling Forex

- Trading AUD/MXN
- Trading AUD/MYR
- Trading AUD/USD
- Trading Chinese Yuan (CNH)
- Trading EUR/AUD
- Trading EUR/INR
- Trading EUR/JPY
- Trading EUR/SGD
- Trading EUR/TRY
- Trading EUR/USD
- Trading EURCAD
- Trading EURGBP
- Trading GBP/AUD
- Trading GBP/CAD
- Trading GBP/HUF
- Trading GBP/INR
- Trading GBP/JPY
- Trading GBP/USD
- Trading GBP/ZAR
- Trading JPY/NOK
- Trading NZD/SGD
- Trading USD/CAD
- Trading USD/CHF
- Trading USD/HKD
- Trading USD/INR
- Trading USD/JPY
- Trading USD/MYR
- Trading USD/SGD
- Trading USD/THB
- Trading Zimbabwean Investment Gold (ZiG)
- When To Trade Forex

For Specific Countries

- Forex Trading in Pakistan
- Forex Trading in Mexico
- Forex Trading in the UAE
- Forex Trading In Singapore
- Forex Trading In The US
- Forex Trading In India
- Forex Trading In South Africa
- Forex Trading In Canada
- Forex Trading In The UK
- Forex Trading In Australia

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