

Forex Trading

Learning exercises on AUD/USD and USD/CNH pairs

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

Correction from T. S. Lau

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- The time period was from Aug 2015 and not Aug 2016.
- The extra one year makes the profit less (58 times to 40 times) as interest (premium needs to be paid on a daily basis)
- The average daily premium is 5 PIPs. Thus 1825 PIPs ($365 * 5$) needs to be deducted from the profit.
- The slides here showed the updated numbers.
- There is the possibility of using additional units from the profit to enhance total profit – making much higher than 40 times in 18 months.

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.

The big picture of AUD/USD pair



Expected Movement of the Chart

- Small upside to the Resistance Zone
- Followed by a significant downward trend for over 200 PIPs
- Some basic information
 - Trade with AUD1m per unit
 - Spread = 19 PIPs
 - Daily net premium = HK\$360
 - Each PIP = HK\$97
- Sold pair at 0.76746 (hope to buy back at 0.74000 profit 274 PIPs)
- Bought pair at 0.76737 for upside protection (pay 38PIP Peace of Mind PM money)

What to gain by Peace of Mind Money (PM)

- Do not need to watch the movement constantly.
- One side loss will automatically be balanced by one side gain.
- If the movement is upside by a large amount, no need for stop loss.
- Can get deeper into the resistance level at no additional cost.
- When the resistance top is confirmed via a small (beginning) downward trend, take off the “protection”.
- May sell another unit (AUD1m) to profit from downward trend.
- Stop loss at around 100PIPs not fun (lost 90 and 104 PIPs)

Some lessons learned in the first two weeks

- My guesses are only 50-50 (half the time right).
- Learned that trailing stop at 90 PIPs not fun.
- Stop Losses hurts ego.
- Highest gain from highest risk – Buy 1 more unit when rate is low, buy 1 more unit when rate is lower again.
 - Three units waiting for rate to go up. Rate went up and all 3 units make profit.
 - Potential unrealized loss reached HK\$90K at one time.
- If real money, may get high stress!
- Learned about premium and hollow candle.

Waiting for further development before close

- Each waiting day will cost HK\$360 in Premium.
- Can wait for clear resistance top (cap) before taking off “protection”.
- The downward movement without “protection” represents profit.
- May risk another unit (add) on downward movement.
- If rate goes up (against judgement), may put protection back in.
 - That will cost more “protection money”.
 - Technique not totally risk free.
 - Correct judgement can produce high profit.
- May wait hitting support level and take reverse action.

Comments 1

- This technique trades for both market up and market down.
- This is a combination of range and trend trading.
 - Range trading is to seek resistance top and sell (hope rate goes down)
 - Range trading is to seek support bottom and buy (hope rate goes up)
 - Trend trading is the additional sell at resistance top and
 - The additional buy at support bottom.
- It does not matter about which currency pair so long as the pair shows “oscillating” behavior.
- Test on USD/CNH and AUD/USD pairs.

Comments 2

- Should wait for full cap before action.
- Wait for possible down trend and no need for “protection”.
- Need to take off protection at down trend (otherwise no profit).
- Next trade, wait for full cap.
- If bouncing between Resistance and Support, no need for immediate protection. Full cap both ways.
- Need careful monitoring at the cap point.
- Need to consider the maintenance premium (HKD360 per day)

Comments 3

- The AUD/USD pair was closed for a total loss of HK\$1,305.
- The reason was to keep focused on just one pair in the learning process.
- Two Buys on USD/CNH are Open.
 - One at 6.8709
 - One at 6.8839
- Plan to play on the side of Hedge Funds
 - Predict rate to be above 7.0
 - Ignore the temporary dips.
- The open position of 6.8839 was supposed to be Day Trade but if unsuccessful, let it ride. (rate fell immediately after hitting 6.8839!)



Main trade at Plus500
Is the USD/CHN pair.

Open Position

Sold at 6.8650.
Gessed wrong.
Bought at 6.8709.
Protection achieved.

Action

Wait to see shape
Cost = 5PIPs per day.

Daily graph of USD/CNH pair ending Feb 10, 2017



- Existing position:
- (1) Both Long and Short
 - (2) Hope to profit from a temporary dip
 - (3) Should only focus on Long position; Take profit on dip; wait for dip bottom and repeat.
 - (4) Rate increase = RMB devalue
 - (5) Take Hedge Fund side and
 - (6) **Force Bank of China to take Meaningful, Effective Action!**

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) Bank of China has no winning strategy. Reserve is being drained.
- (4) Long term strategy is to LONG; close on drop to take profit; wait for the drop; LONG again to repeat.
- (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 100:1, with a unit volume of 1m, the money put down was 10K.
- In other words, he would have earned a profit of 66 times his investment. The daily interest(premium) is around 5PIPs. Total around 2,738PIPs. Actual profit would be 3,862PIPs. (or 40 times approximately)

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? 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 Bank of China buys most of these RMB (with USD from Reserve eventually).
- If Bank of China does not take action, the CNH (Offshore) exchange rate will go up very fast (or offshore RMB will depreciate fast).
- The Hedge Funds can borrow RMB from the offshore banks at commercial rates (5%?) and make around 40 times in 18 months.
- Does the Bank of China know that they are losing the Economic War?

Significance of USD/CNH graph (5)

- 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 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 we 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.

Questions (4)

- What is the ideal outcome?
 - 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.