Market Talks
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FOREX · BEGINNER · LESSON 1 OF 15

What Is Forex? The World's Biggest Market

What it means to exchange currencies, why the world needs to do it every second, and who is on the other side of the trade

11 min read 8 quiz questions with answer key

FOREX · BEGINNER · LESSON 1 OF 15

What Is Forex? The World's Biggest Market

IN ONE SENTENCE

Forex, short for foreign exchange, is the global market where one currency is swapped for another. It has no central building, it runs 24 hours a day from Monday morning in Asia to Friday evening in New York, and about $9.6 trillion changes hands on an average day.

Exchanging one currency for another

Emma lives in London and is flying to New York. Her money is in British pounds, but shops in New York want US dollars. Before she leaves, she swaps £1,000 for dollars and receives $1,340. Without thinking about it, Emma has just taken part in the **foreign exchange market**, usually shortened to **forex** or **FX**.

Every currency exchange has a price, called the **exchange rate**. In Emma's case the rate was 1 pound = 1.34 dollars. The exchange rate is simply the price of one currency measured in another, in the same way that the price of a loaf of bread is measured in pounds or dollars.

The important difference is that exchange rates never stand still. They change every second of the trading day, because millions of people, companies and banks are buying and selling currencies at the same time. Those constant changes are what forex traders try to understand and profit from.

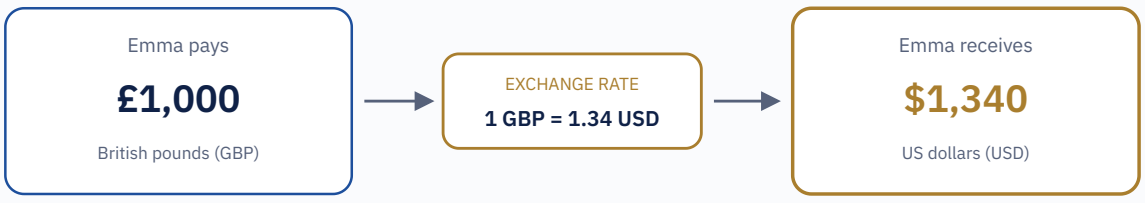


Figure 1. Emma exchanges pounds for dollars. The exchange rate tells her how many dollars each pound buys, and it changes all the time.

EXAMPLE: WHEN THE RATE MOVES

Suppose that a month later the rate has risen to 1 pound = 1.40 dollars. The same £1,000 would now buy $1,400, or $60 more. The pound has become **stronger** against the dollar, and the dollar **weaker** against the pound. If the rate had fallen to 1.28 instead, Emma would have received only $1,280. One exchange rate always tells a story about two currencies at once.

Why the world needs to exchange currencies

Almost every country has its own currency, but people and businesses constantly buy things from other countries. Each time money crosses a border, someone has to exchange it. The main reasons are:

- **Trade.** A Japanese car maker that sells cars in the United States is paid in dollars, but pays its workers in Japan in yen. It has to sell dollars and buy yen. An importer in Germany that buys machines from Switzerland has to buy Swiss francs.
- **Travel.** Tourists, students and people working abroad need local money, whether they swap cash or simply pay by card and let the bank do the exchange.
- **Investing.** A pension fund in Canada that buys shares in Apple first needs US dollars. A Korean investor buying European bonds needs euros.
- **Protection, called hedging.** A company that expects to receive dollars in six months can fix today's exchange rate in advance, so that a sudden move does not wipe out its profit.
- **Trading.** Banks, funds and individual traders buy and sell currencies to profit from changes in exchange rates. This is the part of forex that the rest of this track focuses on.

Central banks also take part. They hold large reserves of foreign currencies and, from time to time, buy or sell their own currency to steady it. You will meet them properly in Lesson 8.

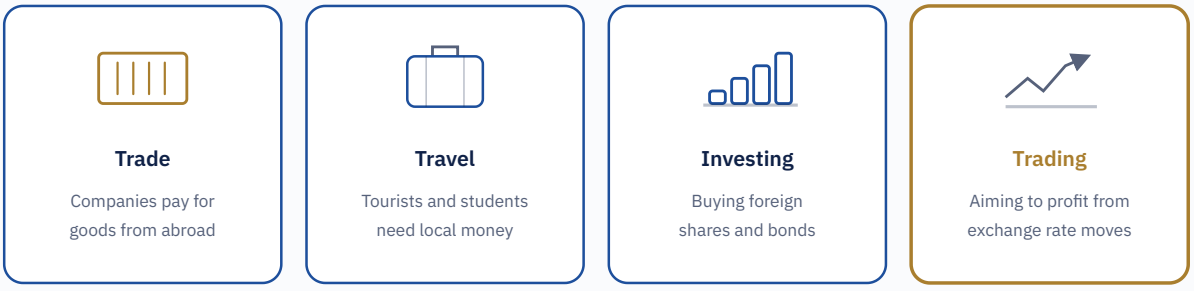


Figure 2. Four everyday reasons currencies change hands. Trading, the focus of this track, is only one of them.

The largest financial market in the world

Every three years, the Bank for International Settlements (BIS), often described as the central bank for central banks, asks more than 1,100 banks and dealers in 52 countries and territories to report their trading for one month. In its latest survey, in April 2025, forex trading averaged **$9.6 trillion per day**, up 28% from $7.5 trillion in 2022.

Not all of that is simple buying and selling. Only about 31% is **spot** trading, which means exchanging currencies now at today's price. The largest share, about 42%, is **FX swaps**, where banks and companies exchange currencies today and agree to swap them back later, mainly to manage their funding. About 19% is **forwards**, deals that fix a rate today for a future date, and about 7% is options.

Such a huge market has one big advantage for traders: **liquidity**. In the most traded currency pairs there are almost always buyers and sellers, so large amounts can be traded quickly and at a price very close to the last one.

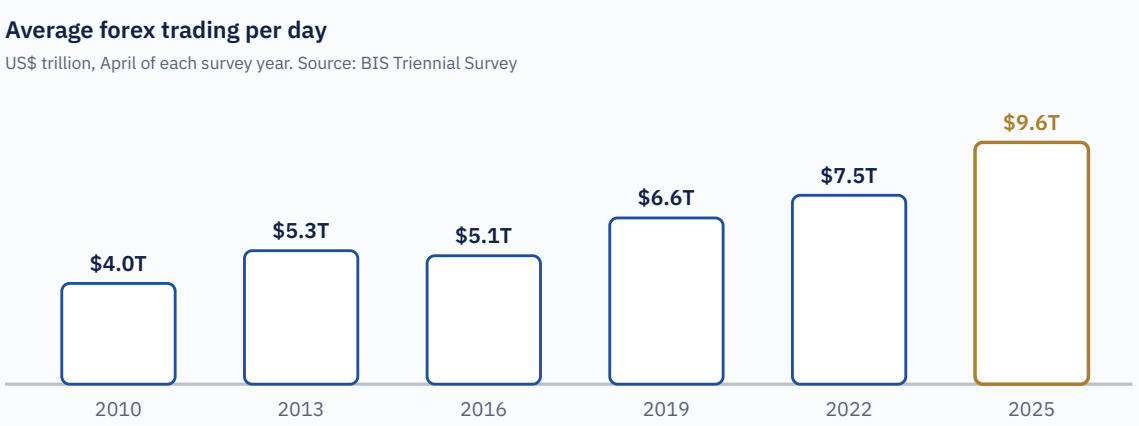


Figure 3. Average daily forex trading in each BIS survey since 2010. Turnover reached about $9.6 trillion per day in April 2025.

EXAMPLE: WHAT $9.6 TRILLION A DAY MEANS

The market trades around the clock, so $9.6 trillion a day works out to about **$400 billion every hour**, or more than $110 million every second. Most of that comes from banks and large institutions. Even so, the price you see on a trading app comes from the same global market.

No building and no single exchange

When you buy a share of a company, the trade usually happens on a stock exchange such as the New York Stock Exchange. Forex works differently. There is no main exchange and no closing bell in

one city. Instead, forex is an **over-the-counter (OTC)** market: trades are agreed directly between two parties, by phone or, today mostly, through electronic trading systems.

At the center of this network sit a few dozen very large banks, known as **dealers**, which constantly quote prices to each other and to their clients. Trading between these banks is called the **interbank market**. Around them sit thousands of smaller banks, funds, companies and brokers.

Although forex has no single home, some cities handle far more of it than others. According to the BIS, the United Kingdom, mostly London, handles about 38% of all forex trading, more than any other country. The United States follows with about 19%, then Singapore and Hong Kong.

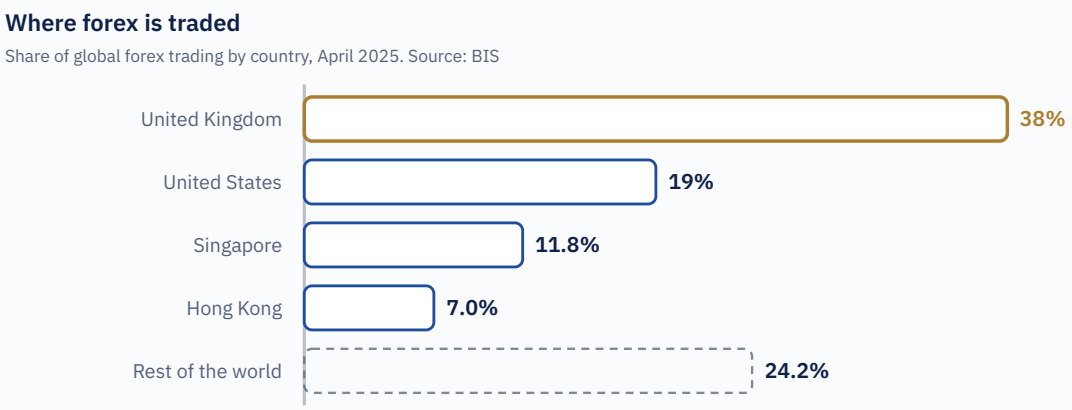


Figure 4. Forex has no single exchange, but trading is concentrated in a few financial centers, led by London.

A market that follows the sun

Because forex is a network of banks around the world rather than one building, it does not need to close at night. As the business day ends in one region, it begins in the next, and the market moves with it.

The trading week starts on Monday morning in Sydney and Tokyo, which is still Sunday evening in London. It passes through Asia, then Europe, then North America, and it closes on Friday at 5 p.m. New York time. That makes forex a market that is open **24 hours a day, 5 days a week**. Over the weekend the main market is closed, although prices can open at a different level on Monday if important news arrives on Saturday or Sunday.

The busiest hours are when two big centers are open at the same time, especially the few hours when London and New York overlap. Lesson 6 explains the trading sessions in detail, including how the clocks change in summer.

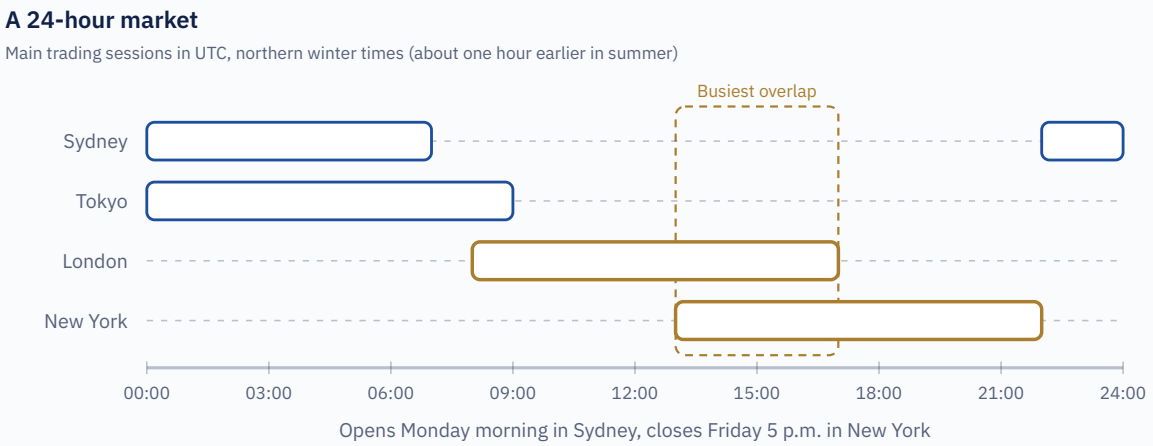


Figure 5. As one region's business day ends, the next begins, so the market runs 24 hours a day from Monday to Friday. The shaded area marks the London and New York overlap.

Who trades forex

Many very different players meet in the forex market, and they trade for different reasons:

- **Dealer banks.** Large global banks quote buying and selling prices all day and earn from the small difference between them. According to the BIS, trading between these dealers makes up about 46% of all forex turnover.
- **Other financial institutions.** Smaller banks, asset managers, pension funds, insurers, hedge funds and high-speed trading firms together make up about 50%. Some invest abroad, some protect existing investments, and some trade purely for profit.
- **Companies.** Exporters, importers and multinational groups exchange currency for their everyday business. Only about 5% of turnover comes directly from these non-financial companies, but their flows can be steady and large.
- **Central banks.** They manage their country's foreign currency reserves and sometimes step into the market to slow down a move in their own currency.
- **Retail traders.** Individuals like you who trade through a broker. Retail trading is a small part of the total, but it has grown quickly with online platforms and trading apps.

For a beginner, the key point is this: when you place a forex trade, you are a very small participant in a market dominated by large banks and institutions. You cannot move the price. Your job is to understand what moves it and to manage your risk.

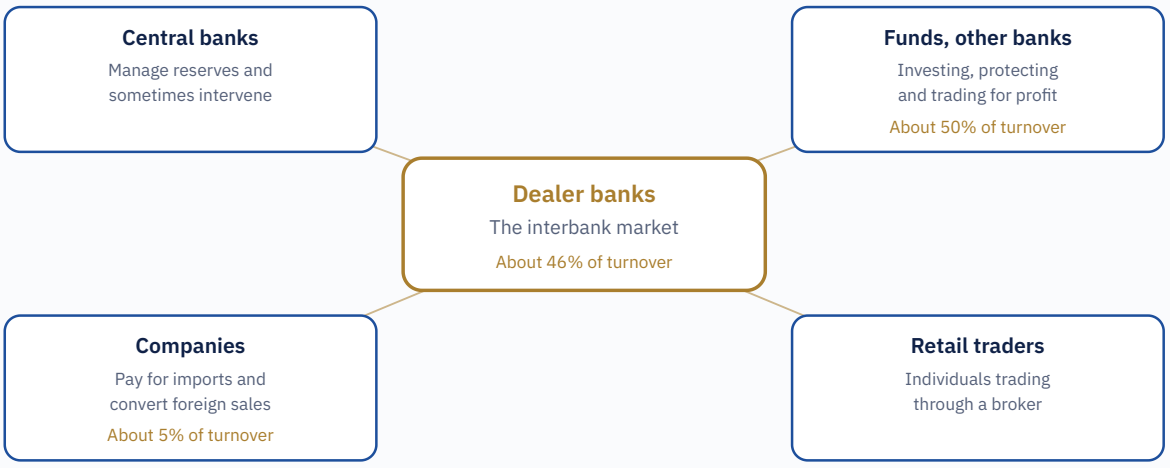


Figure 6. Large dealer banks sit at the center of the market. Other financial institutions, companies, central banks and retail traders all trade with or through them. Shares are from the BIS 2025 survey.

The currencies that matter most

There are around 180 currencies in use around the world, but trading is concentrated in a handful of them. The US dollar is by far the most important: according to the BIS, it is on one side of **89% of all forex trades**. It is the main currency for international trade, for commodities such as oil and gold, and for global borrowing and saving.

The euro comes second, on about 29% of trades, followed by the Japanese yen (about 17%), the British pound (about 10%) and the Chinese yuan (about 8.5%), which has grown fast in recent surveys.

Because every trade involves two currencies, these percentages add up to 200%, not 100%. Currencies are always traded in **pairs**. The most traded pair in the world is EUR/USD, the euro against the US dollar, with about a fifth of all trading, followed by USD/JPY. Lesson 2 explains how currency pairs are written and how they are grouped into majors, minors and exotics.

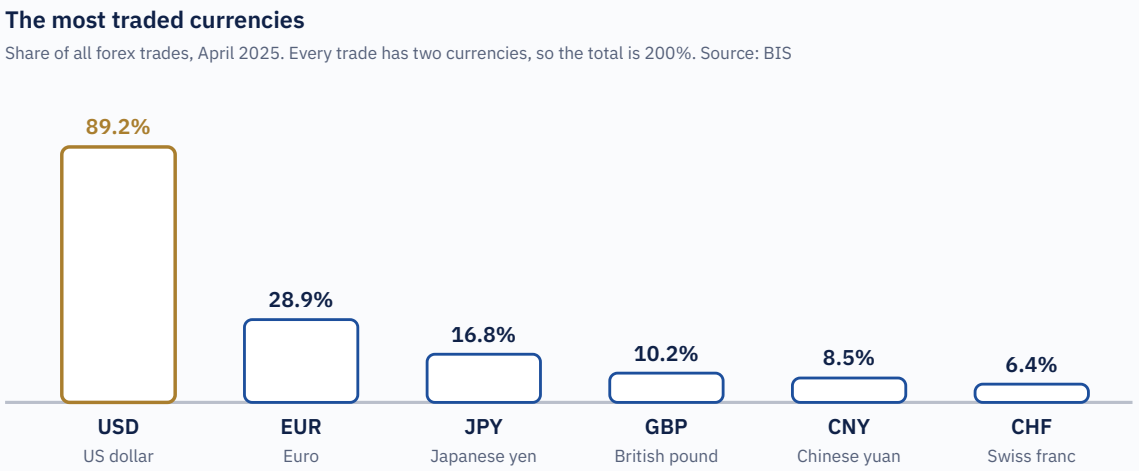


Figure 7. The US dollar is on one side of almost nine in ten forex trades. Because each trade has two currencies, the shares add up to 200%.

How individuals trade forex

Emma exchanged money because she needed dollars to spend. A forex trader has a different goal. David, a trader in Toronto, does not need any euros, but he believes the euro will rise against the dollar over the next few days. Through his broker, he buys EUR/USD. If the euro does rise, he can close the trade at a higher price and keep the difference. If it falls, he loses money.

In most cases, retail traders like David never receive real banknotes or bank deposits in another currency. They trade on the **price changes** of a currency pair through an account with a broker, which in turn deals with banks and other liquidity providers. Many brokers also let clients trade with **leverage**, controlling a large position with a small deposit. Leverage makes both profits and losses larger, and it is the reason many beginners lose money quickly. Lesson 10 explains how it works.

This track builds up step by step: how prices are quoted, how profit and loss is measured, what moves exchange rates, and how to protect your account before you risk real money.

IMPORTANT: MOST RETAIL ACCOUNTS LOSE MONEY

When the European Securities and Markets Authority (ESMA) reviewed data from European regulators in 2018, it found that **74% to 89% of retail accounts typically lose money** trading contracts for difference (CFDs), the product many brokers use for forex. That is why regulated brokers in Europe must show a similar warning on their websites. Forex can be learned, but it rewards preparation and discipline, not luck.

Why this matters for traders

- **The dollar is in almost everything.** With the US dollar on 89% of forex trades, US data such as jobs and inflation figures, and decisions by the US Federal Reserve, can move almost every pair at once.
- **Gold and bitcoin are priced in dollars too.** XAU/USD and BTC/USD are measured against the dollar, so a broad move in the dollar often shows up in gold and crypto charts as well. Lesson 13 looks at gold on a forex platform.
- **Liquidity is not the same at every hour.** The market is open 24 hours, but it is not equally busy. Spreads, the gap between buying and selling prices, are usually tightest when London and New York are both open and wider late in the US afternoon and around big news.
- **You are trading against professionals.** Banks and funds dominate turnover. A clear plan, small risk per trade and patience matter more than trading often.

Key terms

Forex (FX)	The foreign exchange market, where currencies are bought and sold against each other.
Exchange rate	The price of one currency expressed in another, for example 1 pound = 1.34 dollars.
Currency pair	Two currencies quoted against each other, such as EUR/USD. Every forex trade buys one currency and sells the other.
Spot	Exchanging currencies now, at the current market price.
Turnover	The total value of trading in a period, such as the average daily value of all forex deals.
Over-the-counter (OTC)	A market where trades are agreed directly between two parties instead of on a central exchange.
Interbank market	Trading between the large dealer banks at the center of the forex market.
Liquidity	How easily something can be bought or sold quickly without moving its price much.
Hedging	Reducing the risk of a future loss, for example by fixing an exchange rate in advance.

Retail trader	An individual who trades with their own money, usually through an online broker.

Key takeaways

1. Forex is the global market for exchanging one currency for another, and the exchange rate is the price of one currency in another.
2. People exchange currencies for trade, travel, investing, hedging and trading, and central banks take part too.
3. It is the largest financial market in the world, with about $9.6 trillion traded per day in April 2025.
4. Forex has no central exchange: it is an over-the-counter network of banks that runs 24 hours a day, 5 days a week, with London the largest center.
5. The US dollar is on 89% of trades, and individuals trade price changes through brokers, where most retail accounts lose money without proper risk management.

Test yourself

Circle one answer for each question. The answer key with explanations is on the next page. You can also take this quiz online at markettalks.info and see your score instantly.

1. Emma swaps £1,000 and receives $1,340. What is the exchange rate?

- A 1 dollar = 1.34 pounds
- B 1 pound = 1.34 dollars
- C 1 pound = 1,340 dollars
- D 1 pound = 0.34 dollars

2. The rate changes from 1 pound = 1.34 dollars to 1 pound = 1.40 dollars. What happened?

- A The pound got weaker
- B The dollar got stronger
- C The pound got stronger against the dollar
- D Nothing changed for someone with pounds

3. A Japanese car maker sells cars in the US and pays its workers in Japan. What does it need to do?

A Sell yen and buy dollars
B Sell dollars and buy yen
C Buy euros
D Nothing, because cars are priced in gold

4. According to the BIS, about how much forex was traded per day in April 2025?

A $96 billion
B $960 billion
C $9.6 trillion
D $96 trillion

5. What does it mean that forex is an over-the-counter (OTC) market?

A Trades are agreed directly between parties, not on one central exchange
B It only trades cash at airport counters
C Only governments can trade it
D All trades happen in one building in London

6. When are the forex market's busiest hours usually?

A Saturday and Sunday
B When London and New York are open at the same time
C Late at night in New York
D Only during the Tokyo session

7. Why do the currency shares in the BIS survey add up to 200%?

A Because of a counting error
B Because every trade involves two currencies
C Because the dollar is counted twice on purpose
D Because spot trades are counted twice

8. David buys EUR/USD through his broker. What does he expect?

A The euro to fall against the dollar

B The euro to rise against the dollar

C To receive euro banknotes by post

D The exchange rate to stay the same

Answer key

1 B

1 pound = 1.34 dollars

$1,340 divided by £1,000 is 1.34, so each pound bought 1.34 dollars. The exchange rate is the price of one currency in another.

2 C

The pound got stronger against the dollar

Each pound now buys more dollars, so the pound has strengthened and the dollar has weakened against it. One rate always describes two currencies.

3 B

Sell dollars and buy yen

It earns dollars from US sales but pays costs in yen, so it has to exchange dollars into yen. Trade between countries is one of the main reasons the forex market exists.

4 C

$9.6 trillion

About $9.6 trillion per day, up 28% from $7.5 trillion in 2022. That is roughly $400 billion every hour.

5 A

Trades are agreed directly between parties, not on one central exchange

Forex is a network of banks, funds, companies and brokers trading directly with each other, mostly through electronic systems. London is the largest center, but there is no single exchange.

6 B

When London and New York are open at the same time

Activity is highest when two big centers overlap, especially London and New York. The main market is closed at the weekend.

7 B

Because every trade involves two currencies

Each forex trade buys one currency and sells another, so each trade is counted once for each of its two currencies. The US dollar appears in 89% of trades.

8 B

The euro to rise against the dollar

Buying EUR/USD means buying euros and selling dollars, so David profits if the euro rises against the dollar and loses if it falls. Retail traders usually trade price changes, not physical currency.

SOURCES

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CONTINUE LEARNING

Up next: Lesson 2 Currency Pairs: Majors, Minors and Exotics

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