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FOREX · BEGINNER · LESSON 3 OF 15

Reading a Quote: Bid, Ask and Spread

Why every forex price comes as two numbers, which one you trade at, and how the gap between them quietly becomes your biggest everyday cost

10 min read 8 quiz questions with answer key

FOREX · BEGINNER · LESSON 3 OF 15

Reading a Quote: Bid, Ask and Spread

IN ONE SENTENCE

Every forex quote has two prices: the bid, at which you can sell, and the ask, at which you can buy. The difference between them is the spread. It is a cost you pay on every trade, it changes during the day, and it explains why a new trade always starts slightly in loss.

One pair, two prices

In Lesson 2 we wrote EUR/USD as one number, 1.0850. Open a trading platform and you will see that every pair actually shows **two prices** side by side, for example **1.0848 / 1.0850**.

- The lower number is the **bid**. It is the price at which you can **sell** the pair right now.
- The higher number is the **ask**, also called the **offer**. It is the price at which you can **buy** the pair right now.

On most platforms the bid sits on the left under a SELL button and the ask on the right under a BUY button. The number between them is the **spread**, the gap between the two prices, usually shown in pips. You will learn exactly what a pip is in Lesson 4. For now, it is enough to know that for most pairs one pip is the fourth decimal place, 0.0001, so the gap between 1.0848 and 1.0850 is 2 pips.

The prices in this lesson are examples. On many accounts the real EUR/USD spread is often smaller than 2 pips; we use round numbers to keep the arithmetic easy.

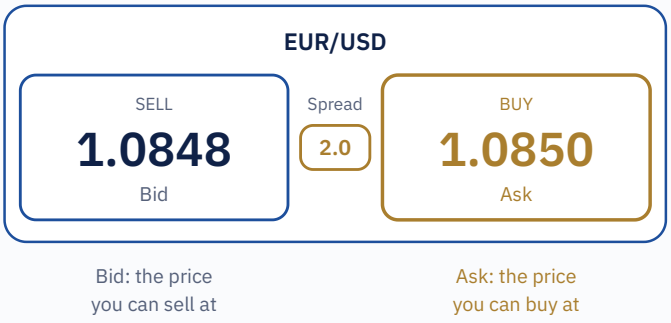


Figure 1. A quote as most platforms show it. You sell at the bid on the left and buy at the ask on the right; the number between them is the spread in pips.

Why there are two prices

Whenever you trade, someone has to be on the other side: a bank, a liquidity provider or your broker. That dealer is ready to buy from you and sell to you at any moment, but not at the same price. It buys a little lower and sells a little higher, and the difference pays for the service and the risk it takes.

So when you **sell** EUR/USD, the dealer buys from you at its bid, 1.0848. When you **buy** EUR/USD, the dealer sells to you at its ask, 1.0850. Seen from your side, you always buy at the higher price and sell at the lower price. That is not a trick; it is how every market with a dealer works, from foreign exchange booths to car dealers.

There is no single "official" forex price. Each broker builds its quotes from the prices it receives from its own banks and liquidity providers, so two brokers can show slightly different bids and asks for the same pair at the same moment.

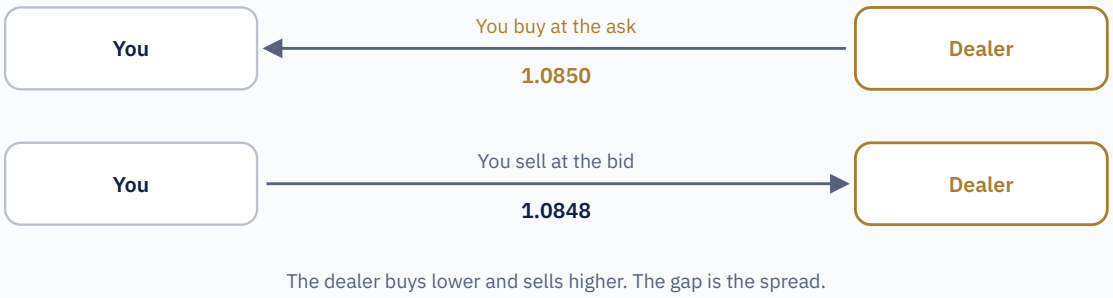


Figure 2. The dealer on the other side of your trade buys from you at the bid and sells to you at the ask. The difference is the spread.

Same idea, very different costs

Before her trip to New York, Emma walks past a currency booth at the airport. The board shows two prices for the pound: the booth will give her **1.30** dollars for each pound she sells, but if she comes back with dollars, it will ask her for **1.40** dollars for each pound she buys back. The gap of 0.10, or 1,000 pips, is the booth's profit. On a trading platform the same pair might be quoted at 1.3398 / 1.3400, a gap of just 2 pips. The idea is the same, but the cost is about 500 times smaller.

The lesson for traders is simple: the spread is a price you pay for convenience and liquidity. The busier and more competitive the market, the smaller it is.

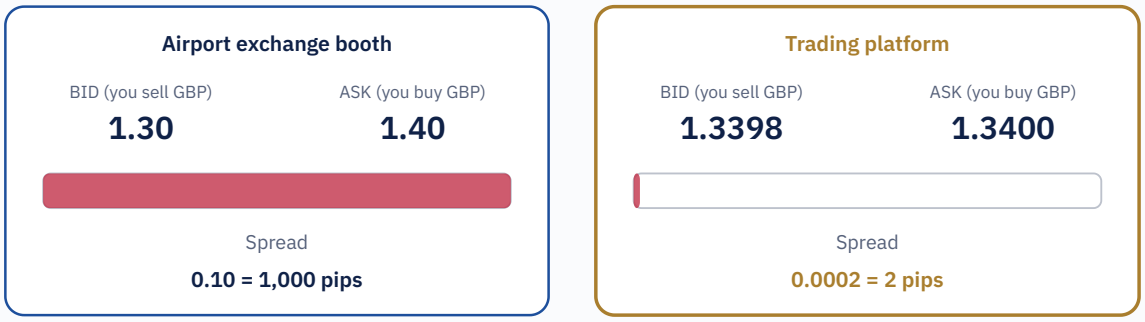


Figure 3. The same idea, two very different costs. An airport booth's spread can be hundreds of times wider than a trading platform's. The prices are examples.

Every trade starts behind

Because you buy at the ask and sell at the bid, a new trade is always slightly in loss the moment it is opened. Anna buys EUR/USD at the ask, 1.0850. If she wanted to close the trade immediately, she would have to sell at the bid, 1.0848. So her platform shows a small loss of 2 pips straight away, even though the market has not moved at all.

To break even, the **bid** has to rise to 1.0850, the price she paid. Only after that does the trade start to make money. For a short trade it works the other way round: you sell at the bid and close by buying at the ask, so the **ask** has to fall to your entry price before you break even.

This is why the spread matters so much. It is a cost you pay on every single trade, win or lose. A trader who opens many short-term trades a day can lose a large part of their account to spreads alone, without any bad trades.

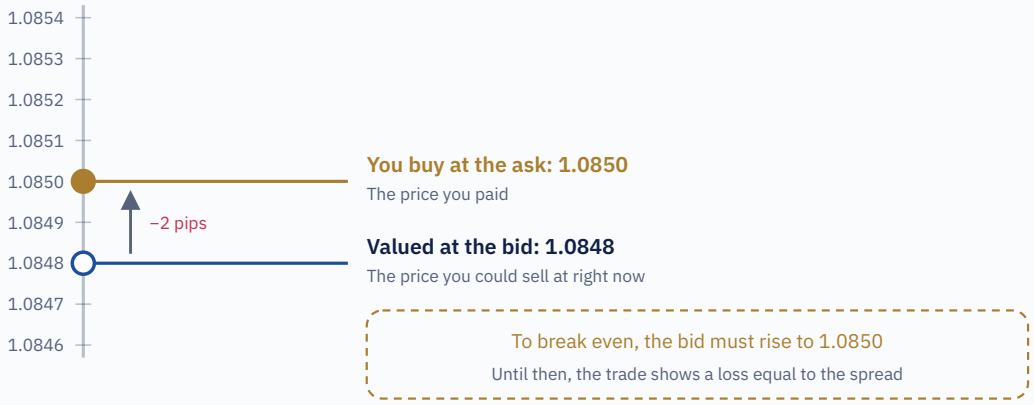


Figure 4. Anna buys at the ask, but her trade is valued at the bid, so it starts 2 pips in loss. The bid has to rise to her entry price before she breaks even.

The spread is not fixed

On most accounts the spread is **variable**, also called floating. It moves all day, depending on how many buyers and sellers are active. It is usually tightest when the market is busiest and widest when it is quiet or nervous. Spreads often widen:

- **Around the daily rollover.** At 5 p.m. New York time, the end of the trading day, many banks reset their positions and liquidity is very thin for a short time. Spreads on major pairs can widen many times over for a few minutes.
- **During big news.** In the seconds before and after an important release, such as US jobs data or a central bank decision, dealers pull back their prices and spreads can jump to several times their normal size. Lesson 9 covers the economic calendar.
- **At the Monday open and before weekends.** Activity is low and prices may jump if there was news over the weekend.
- **In less traded pairs.** Crosses and exotics always have wider spreads than the majors, as you saw in Lesson 2.

Some brokers offer **fixed spreads** that do not change during the day. They are easier to plan around, but usually wider on average, and the broker may still widen them or refuse orders in extreme conditions.

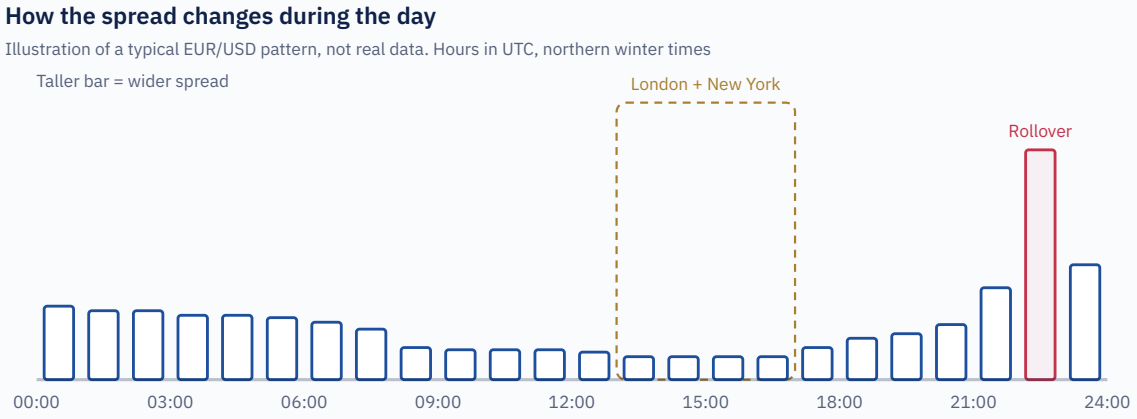


Figure 5. An illustration of how a major pair's spread typically changes over a day: tightest when London and New York overlap, widest around the daily rollover.

Spread, commission and your real cost

Brokers earn money in two main ways, and they usually offer two types of account:

- **Standard accounts** charge no separate commission. The broker's income is built into a wider spread.

- **Raw spread accounts**, sometimes called ECN accounts, show spreads very close to the prices the broker receives from its banks, but charge a fixed **commission** for every lot traded.

To compare them, add up the total cost of a full trade, opened and closed. Here is an example for one standard lot of EUR/USD, where one pip is worth $10 (Lesson 4 explains this). On a standard account with a 1.2-pip spread, the cost is 1.2 × $10 = **$12**. On a raw account with a 0.2-pip spread and a $7 commission, the cost is $2 + $7 = **$9**. These are example numbers; real costs depend on the broker, the pair and the time of day.

Neither type is always better. Raw accounts are often cheaper for active traders and large positions; standard accounts are simpler to understand. What matters is that you know your total cost per trade before you start. Lesson 14 explains how to compare brokers safely.

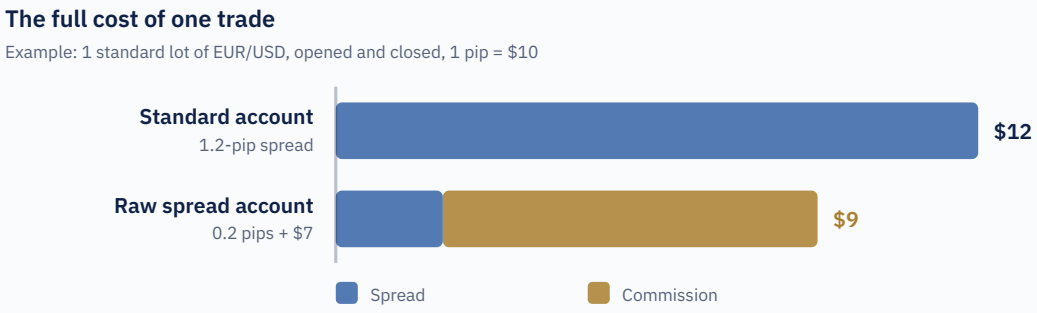


Figure 6. Comparing account types by the full cost of a trade, spread plus commission. The numbers are examples and differ between brokers.

Your chart usually shows only the bid

Here is a detail that surprises many new traders. Most charting platforms, including MetaTrader and many broker charts, draw the candles using the **bid** price only. The ask is not drawn, but it is always there, one spread above the bid.

This matters for orders that close a short trade, because those orders are filled at the **ask**. David sells EUR/USD and places a stop loss above a recent high, an order that will close the trade automatically if the price rises too far. When the market reaches its peak, the bid line on his chart stays just below his stop. But the ask, which he cannot see on the chart, rises above it, and the trade is closed. Looking at the chart afterwards, David cannot understand why he was stopped out.

The same thing happens more often when spreads widen, for example at rollover or during news. A simple habit helps: when you place a stop loss on a short trade, or a buy order above the market, leave room for the spread. Many platforms also let you show the ask line on the chart. Lesson 11 explains order types in detail.

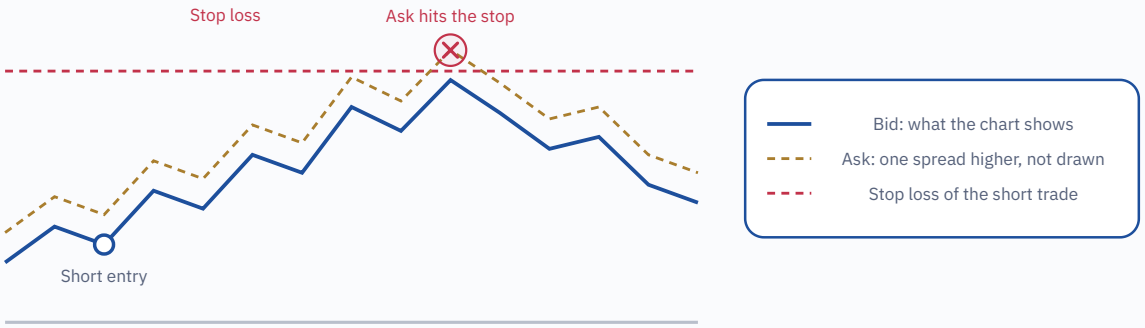


Figure 7. The chart shows the bid. The ask, one spread higher, can reach a short trade's stop loss even when the bid line never touches it.

EXAMPLE: CHECKING YOUR STOP AGAINST THE SPREAD

David's stop loss is at 1.0900, and the highest bid of the day is 1.0899. With a normal 1-pip spread, the highest ask was 1.0900, exactly at his stop, so the trade closed. If the spread had widened to 5 pips during a news release, the ask would have reached 1.0904 even if the bid had only touched 1.0899. Leaving a few extra pips of room above the high would have kept the trade open.

Why this matters for traders

- **Know your cost before you trade.** Check the spread, and the commission if there is one, on every pair you trade. A strategy that targets only a few pips per trade may not survive the costs.
- **Avoid trading at the worst moments.** Opening or closing trades just around the 5 p.m. New York rollover, or in the seconds around big news, often means paying a much wider spread.
- **Leave room for the spread.** Your chart shows the bid. Stops on short trades, and buy orders above the market, are triggered by the ask.
- **The same applies to gold and crypto.** XAU/USD and BTC/USD also have a bid, an ask and a spread, and on many platforms the spread on gold widens sharply at rollover and around US data.

Key terms

Bid	The price at which you can sell a pair right now. It is the lower of the two quoted prices.
Ask (offer)	The price at which you can buy a pair right now. It is the higher of the two quoted prices.
Spread	The difference between the ask and the bid, usually measured in pips. It is a cost you pay on every trade.
Variable (floating) spread	A spread that changes during the day with market activity and conditions.
Fixed spread	A spread that a broker keeps at the same size in normal conditions, usually wider on average.
Commission	A separate fee charged per trade or per lot, common on raw spread accounts.
Liquidity provider	A bank or trading firm that supplies buy and sell prices to brokers and other market participants.
Rollover	The end of the forex trading day at 5 p.m. New York time, when liquidity is thin and spreads often widen.
Break-even	The price at which a trade has neither profit nor loss after costs.
Stop loss	An order that closes a trade automatically if the price moves against you to a chosen level.

Key takeaways

1. Every forex quote has two prices: you sell at the bid, the lower price, and buy at the ask, the higher price.
2. The spread, the gap between the ask and the bid, pays the dealer and is a cost you pay on every trade.
3. Because of the spread, a new trade starts slightly in loss; the price must move by the spread before you break even.
4. Spreads change during the day and widen at rollover, around big news, at the weekly open and in less traded pairs.

5. Your total cost is the spread plus any commission, and most charts show only the bid, so stops on short trades are hit by the ask.

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. EUR/USD is quoted at 1.0848 / 1.0850. At which price can you buy?

A 1.0848
B 1.0849
C 1.0850
D 1.0852

2. What is the spread in a quote of 1.0848 / 1.0850?

A 0.0002, or 2 pips
B 0.0020, or 20 pips
C 1.0849
D 0.02, or 2 pips

3. Why does a dealer quote two prices?

A Because the law requires it
B It buys a little lower and sells a little higher, which pays for its service and risk
C One price is for banks and one for retail traders
D One price is in euros and the other in dollars

4. Anna buys at 1.0850 when the quote is 1.0848 / 1.0850. The market does not move. What does her platform show?

A A profit of 2 pips
B Exactly zero
C A loss of 2 pips
D A loss of 1,085 pips

5. When do spreads usually widen?

A. When London and New York are both open
B. Around the 5 p.m. New York rollover and during big news
C. Only at weekends, when the market is closed
D. Never on major pairs

6. Standard account: 1.2-pip spread, no commission. Raw account: 0.2-pip spread plus a $7 commission. One pip is worth $10. Which is cheaper for one full trade?

A. Standard, at $12
B. Raw, at $9
C. They cost the same
D. Raw, at $2

7. Most charts are drawn using which price?

A. The ask
B. The bid
C. The average of the day
D. The price of the last trade on an exchange

8. David is short EUR/USD with a stop above the high. His chart never reached the stop, but the trade was closed. What is the most likely reason?

A. His broker made a mistake
B. The ask, which closes short trades, reached the stop even though the bid on the chart did not
C. Stops only work during the Tokyo session
D. The trade was closed because it was in profit

Answer key

1 C

1.0850

You buy at the ask, the higher price, 1.0850. You would sell at the bid, 1.0848.

2 A

0.0002, or 2 pips

The spread is the ask minus the bid: 1.0850 minus 1.0848 is 0.0002. For most pairs one pip is 0.0001, so the spread is 2 pips.

3 B

It buys a little lower and sells a little higher, which pays for its service and risk

The dealer buys from you at the bid and sells to you at the ask. The gap pays for providing prices at any moment and for the risk it takes.

4 C

A loss of 2 pips

Her trade is valued at the price she could close at, the bid of 1.0848. That is 2 pips below her entry, so the trade starts 2 pips in loss.

5 B

Around the 5 p.m. New York rollover and during big news

Spreads widen when liquidity is thin, such as at rollover, or when dealers pull back their prices around important news. They are usually tightest during the busy London and New York overlap.

6 B

Raw, at $9

Standard: 1.2 × $10 = $12. Raw: 0.2 × $10 = $2, plus $7 commission, which makes $9. Always compare the total cost, not just the spread.

7 B

The bid

Most forex charts show bid prices only. The ask is always one spread higher, even though it is not drawn.

8 B

The ask, which closes short trades, reached the stop even though the bid on the chart did not

A short trade is closed by buying at the ask. The chart shows the bid, so the ask can touch the stop while the bid line stays just below it, especially when the spread widens.

SOURCES

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