

Simple-N-Easy Forex

7 Great Simple-N-Easy times to trade the forex market

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or



Always fish where the fish are

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Introduction

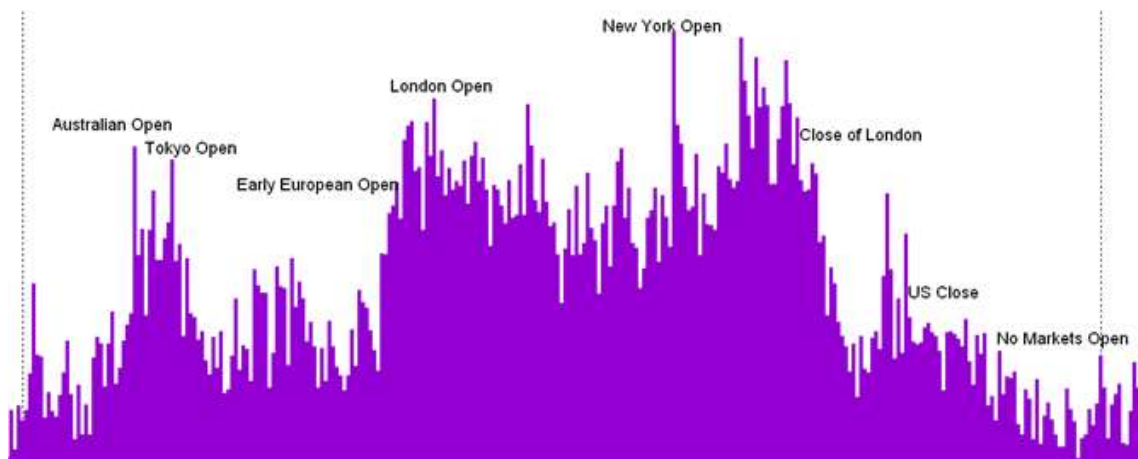
In this introduction module about the Forex market we are going to look at the **daily rhythm of the Forex market** and identify the best times to trade the Forex market and also periods to avoid.

One of the most important aspects of trading the Forex market is to **understand what drives price movement**. We are often told that the market operates on a 24 hour basis 7 days a week – this is true but it does not mean that that you can apply any technique at any time and expect the same or even good results.

Contrary to certain beliefs the Forex Market is still driven by **human behaviour**. Volumes increase when the participants in the Forex market are physically at “the Office” working and volumes and activity dies down when those participants go home and sleep.

Many Forex traders **focus so much on technical analysis** that they **ignore market behaviour completely**. The Forex traders who are successful are masters at understanding market behaviour and then merely using appropriate technical analysis to enter the deal.

Something to consider is that there is no official Forex market as there is a Stock, **share** or Bond market. Activities in the **Forex market occur as result of activities in all the other financial markets and institutions**. So we need to study the times when these financial institutions open and close. The chart below is one reflecting the trading volumes going through the Forex Market and how important the opening and closing of **financial markets** are to the Forex market.



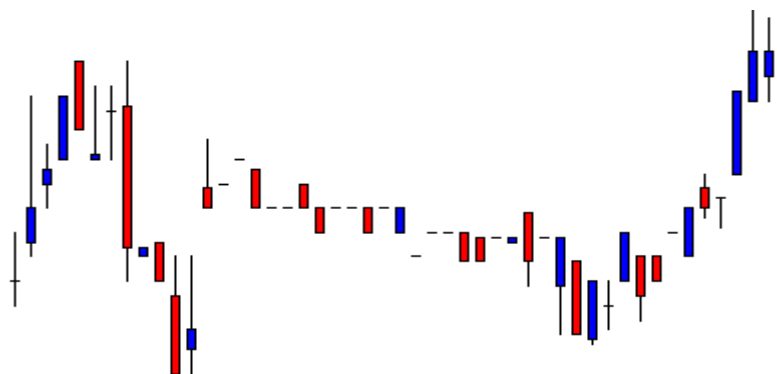
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The chart below also shows how market opens and closes can (not always) **impact and change the direction of trading**. We therefore have to be aware of time of day factors which can impact forex trading. Most of the day's highs and lows come from the Asian open, European open and close and the US open and close.



The **period between the US market close and the Tokyo market** has particularly low volumes. Although trends sometimes can occur in the period the chart below shows how poor candle stick formations are during this period due to the extremely low volumes.



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The table below shows the **average hourly ranges of a number of currency crosses**. Again the importance of the market openings and closings are confirmed by the increased volatility created at those times.

Legend: = highest values of the day = highest Asian values

GMT	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
GBPJPY	21	25	32	30	23	24	25	30	37	45	48	37	33	32	46	40	45	34	24	23	23	20	22	19
GBPUSD	17	21	23	23	19	18	18	24	36	43	45	38	29	31	42	42	45	37	26	25	27	21	20	17
EURUSD	14	22	27	22	19	16	17	22	33	39	38	34	28	29	44	41	46	34	25	24	25	17	16	12
EURJPY	18	23	29	26	21	21	22	25	31	39	35	31	27	26	38	35	39	30	22	21	21	18	18	14
EURCHF	16	20	20	21	18	17	18	22	33	40	34	33	28	28	38	35	42	31	25	23	24	20	19	15
AUDJPY	17	20	26	26	21	21	20	22	25	30	26	22	21	22	33	28	35	26	18	18	21	19	18	16
AUDUSD	14	19	25	24	20	19	16	20	26	30	26	22	21	23	31	29	37	27	20	19	24	20	16	15
USDCHE	12	16	16	18	15	13	15	17	26	32	27	26	23	24	37	31	40	27	21	20	22	17	18	14
CADJPY	15	16	20	21	17	16	18	17	23	25	23	20	21	22	38	30	36	27	19	19	20	20	18	15
GBPCHF	15	16	20	20	16	16	17	17	22	25	22	20	20	20	37	29	36	27	19	18	20	19	18	14
USDCAD	12	13	16	16	14	13	14	14	21	24	22	21	20	24	36	30	36	30	21	22	23	19	18	14
NZDUSD	17	17	18	19	16	15	16	16	22	25	21	19	18	20	26	26	31	25	18	19	20	17	17	18
USDJPY	12	14	17	17	12	12	13	13	17	19	17	16	13	15	25	19	24	15	12	12	12	10	11	10
EURGBP	7	10	11	10	9	8	9	12	19	21	26	19	17	15	20	18	20	17	14	12	12	9	9	7

Asian Market: 0-3
European Open: 7-9
US Open: 13-15
European Close: 16-18
US Close: 20-23

Day Light saving adjustments

Many of the markets have day light savings adjustments twice a year. These adjustments do not impact the local routines – the banks still open at the same local times etc. They do however impact other countries that are no longer aligned with the country making the change. Sydney and London alignment changes by as much as 2 hours due to them being in different hemispheres.

The best website to keep track of these changes is a site called www.timeanddate.com which gives you details of all major cities and their local and GMT related times. The easiest way align times is to use their meeting planner and arrange a meeting between your major city (say Johannesburg) and the major city you want to align with (Say New York). You will immediately be given a schedule listing the local times side by side so you will be able convert your local time to the other cities local time.

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The following times are indicative of when the price is inclined to increase in movement and change or confirm direction:

1 The Open of the Tokyo market (9:00 am to 1:00 pm Tokyo time)

The Asian market has fewer announcements than the other markets and the announcements appear to have fewer whipsaws. **Australia (Earlier), Hong Kong and Singapore** (1 hour later) are other exchanges impacting this market. The Asian Based currencies are best traded in this market (**AUDUSD, USDJPY**) along with the **EURUSD**. 26% of the daily highs or lows occur in this market

2 The Open of the European market (7:00 am to 9:00am London time)

The period covering the afternoon Asian and early European session is a low volume period. Volumes start increasing at about **7:00 am London time** and this is often the best opportunity to catch some short term trends. Frankfurt is an important exchange that opens in this market. This period often produces the daily highs or lows with **8:00 am London** being an important time. **8:00 am and 9:30 am** often produces the high or the low for the rest of the day. This market behaviour emphasises the importance of time of day trading.



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3 The Opening of the London Financial markets (9:00am to 11:00am London time)

The London Financial market is the **highest volume Forex market**. The period around its open has the potential to produce the best trends. There are also more economic announcements impacting the EURUSD and the GBPUSD during this period. It is the best period to trade where a scalping transaction can often get you into a +100 trend.

4 The Opening of the US Financial Markets (8:30am to 11:00 am New York)

The Opening of the US market **can be very volatile** due to the high concentration of announcements in this session (especially on Thursdays and Fridays). Chicago opens 1 hour after New York. The **reactions to announcements are more severe with dramatic breakouts and whipsaws happening regularly**. The US open happens when the European markets are still open and therefore you have a 3 hour overlap in volumes making it appear as if the US market is bigger than the UK one. In fact it has lower volumes. The USDCAD has its biggest trading volume in this market.

5 The close of the London and US markets (+/- 5:00 pm London time and +/- 5:00 pm New York)

As you can see the close of these markets can create trends or trend corrections until the Asian markets open. This period has fewer announcements and has fewer fear and greed type of moves. A highly tradable period with some good repeating patterns.

6 Economic Announcement times

Economic announcements result in new **financial information about an economy being released**. The disclosures often happen at a precise time of day and can cause trends when the news is not in line with what has been expected. The best source of upcoming announcements is Forex Factory's economic calendar which shows upcoming announcements based on the level of impact expected (**High, low and medium**). It is generally regarded as a high risk time to trade when high impact announcements occur as they could result in higher velocity price moves and whipsaws.

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This 1 minute chart shows how the price moved 95 pips in 1 minute and then moved 148 pips in the other direction in the next 15 minutes only to return to the original price level 10 minutes later. A journey of over 200 pips in less than a half an hour.

The best way to trade these announcements is **not to trade them or to use a straddle approach**. If you are in a deal you need to exit the deal or move your stop to protect your trade from disaster. Brokers tend to **increase their spreads** prior to a big announcement to discourage trading.

Below are details you can obtain from <http://www.forexfactory.com/calendar.php> where you can obtain information about up and coming announcements. You can even change the time shown into your own local time so that you do not have to translate these times into your own time.

Nov		2010		Nov 28 - Dec 4		Filter	
S	M	T	W	T	F	S	
> 31	1	2	3	4	5	6	
> 7	8	9	10	11	12	13	
> 14	15	16	17	18	19	20	
> 21	22	23	24	25	26	27	
> 28	29	30	1	2	3	4	

Date	Time	Currency	Impact	Detail	Actual	Forecast	Previous	Chart
Sun Nov 28	4:45pm	NZD	Trade Balance	-319M	-416M	-457M		
	6:35pm	AUD	HIA New Home Sales m/m	2.4%		-1.7%		
	6:50pm	JPY	Retail Sales y/y	-0.2%	0.8%	1.4%		
	7:30pm	AUD	Company Operating Profits q/q	-1.5%	4.3%	17.0%		
	8:00pm	JPY	BOJ Gov Shirakawa Speaks					
	9:00pm	NZD	NBNZ Business Confidence	33.2		23.7		
Mon Nov 29	2:30am	AUD	RBA Gov Stevens Speaks					
	4:30am	GBP	Net Lending to Individuals m/m		0.8B	0.4B		
	4:30am	GBP	Final Mortgage Approvals		47K	44K		
	8:30am	CAD	Current Account		-14.9B	-11.0B		

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7 Weekend Gaps

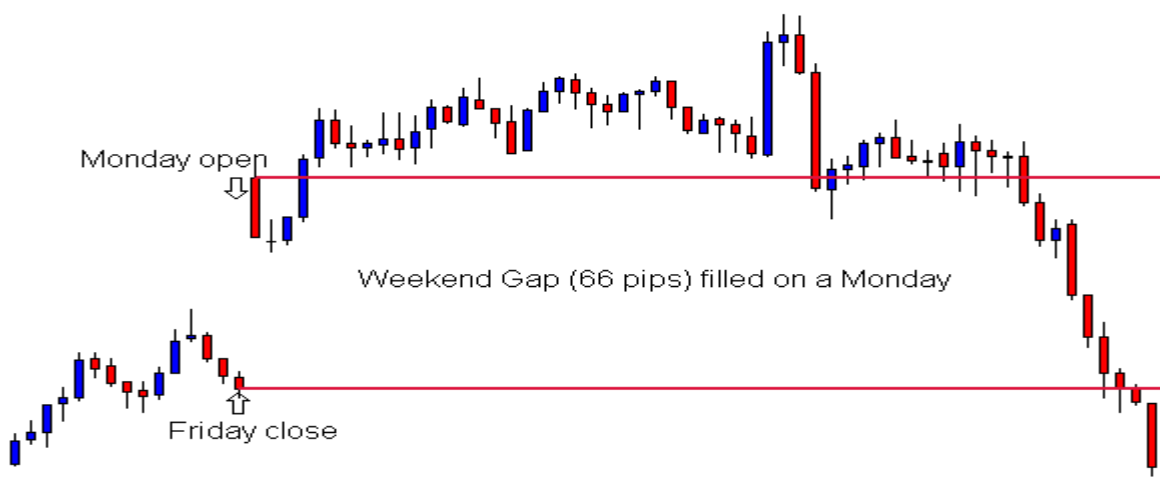
Weekend gaps are quite common in Forex trading. Expert4x recently did an analysis of the weekend gaps since the beginning of 2009. The table below reflects the results of this analysis

Currency	Total Weeks	Sell gaps	Buy Gaps	Closed Gaps *	Total pips of Closed gaps	Biggest Gap in pips	Smallest Gap in pips	Ave pips closed gap
GBPJPY	81	47	34	63	2,042.20	147.80	0.40	32.42
EURUSD	81	35	46	63	1,254.40	85.60	0.20	19.91
GBPUSD	81	47	34	66	1,598.80	137.80	0.50	24.22
USDCHF	81	40	41	71	1,179.20	89.70	0.10	16.61
USDJPY	81	42	39	71	834.00	51.90	0.10	11.75
EURJPY	81	39	42	63	1,501.60	113.80	0.20	23.83
AUDUSD	81	40	41	58	865.00	49.30	0.20	14.91
USDCAD	81	36	45	69	911.90	67.00	0.20	13.22
totals	648	326	322	524	10,187.10		Ave	19.61
		50%	50%	81%				

* Closed gaps are when the open price on Monday goes back to the close price of the previous Friday within a day

This analysis shows that on average **80% of weekend gaps are closed within a day**. The average gap is +/- 19 pips.

The way to trade the closing of these gaps is to enter a deal on the Monday morning with the Friday close price as the target. Your stop would generally be the same size or double that of your target in pips.



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1. Straddling the price range

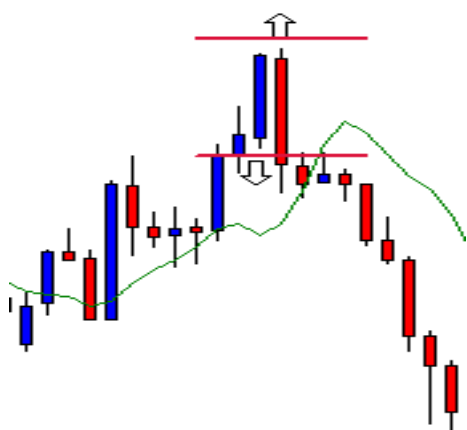


Often the market behaviour prior to an important announcement or event will cause the market to trade **sideways in a narrow range of uncertainty**. Nobody knows which way the market will move prior to the new information becoming available. Once the information is available, the market will trade in a particular direction.

The most common way of dealing with this is to place a Buy order above the consolidation and a sell order below and let the market decide which one will be activated. The amount of the straddle could be 5 to 10 pips above and below the support and resistance lines. **This straddle approach can be used for any type of consolidation due to uncertainty.**

The 5 to 15 minute charts work well with this approach

2. Straddling a specific candle



When the market is trending at the time of the potential trend starting event or time (Announcement or market open), you can merely straddle the candle just before the event. The amount of the straddle could be 5 to 10 pips above and below the high and the low of the previous candle.

The 5 to 15 minutes charts work well when using this approach

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3. Trading away from a specific price level.

Sometimes the price does not always head in a specific direction at the time anticipated.

Traders often use the price level as Sell and Buy Zone divider. You would then buy when the price is above the price level or sell when the price is below the price level UNTIL the price finds its trend for the day.

This can be monitored on the 5 to 15 minute charts

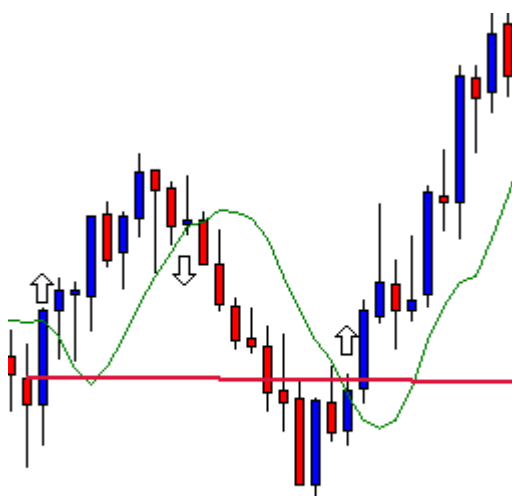


4. Scalping to find the market direction

Traders often use scalping to find the market direction when there is a high probability of a trend . There are many ways of scalping.

The example shows how the Magic Moving average (3 offset by 3) provides great scalping opportunities until the market eventually finds its direction.

This approach is best used in more liquid markets such as the opening of Asian, Europe and US. You can use the 5 to 15 minute charts for this approach.



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Close

The objective of this module is to create an **awareness of the importance of time of day in Forex Trading**. Technical analysis is a good tool for getting you into deals and exiting deals. **Technical Analysis is not Forex trading**. You are not going to make money using technical analysis on its own.

The market moves in unpredictable ways because of new information entering the market (Announcements and news) and because of time of day factors (Opening and Closing of markets). **You have to master and understand market behaviour which regularly repeats itself, before you can apply technical analysis, risk and money management.**

This module suggests that:

- 1 You have to know Forex market behaviour before you can decide which appropriate Technical Analysis technique to use.
- 2 Market opens and closes are important times when trends can start.
- 3 Announcements and news will impact the price movements and start trends.
- 4 There are many ways of trading the start of these trends – 4 were shown.

What you need to do

- You need to find your **own examples** of the concepts discussed.
- You need to discover your **own patterns** that occur a special time in the market.
- You need to work out which Technical Analysis techniques, risk management and money management techniques will help you take advantage of the moves. Suggestions will be made in other modules in this series.

At best this module is **only an introduction to the concept of time of day trading**.

Comments and Questions

Please send any comments and questions about this module to <mailto:info@expert4x.com>