Admiral Markets UK Ltd.
16 St Clare Street London, EC3N 1LQ United Kingdom
United Kingdom

The Forex & CFD market

Updated: 02-2017

The foreign exchange market, usually referred to as the Forex market, is the biggest and most liquid financial market in the world. Its daily global turnover reached 5.1 trillion US dollars in April 2016, according to the Bank of International Settlements (BIS) triennial report. This accounts for a 20% increase since 2010, when the previous report mentioned an average daily turnover of 4 trillion US dollars.(1)

Although the daily turnover dropped slightly since the last triennial report (from 5.4 trillion US dollars), its consistently high liquidity still proves just how resilient the Forex market really is. Its turnover has experienced almost continuous growth since 2001 and established its position as the most popular and most-traded market worldwide.

A significant difference between the Forex and stock markets is the lack of a centralised, unitary market, unlike the famous New York Stock Exchange's *Wall Street*. Instead, there are lots of big "market makers" on the Forex market that execute orders on different marketplaces. The biggest among those are usually large banks, which determine the benchmark prices for currencies. According to financial magazines and American consultancy firm Greenwich Associates, the banks with the biggest shares on the global currency market are the German Deutsche Bank, Citigroup, Barclays, UBS, HSBC and JPMorgan.

The most significant Forex market is located in the UK, with London being one of the most important trade centres, handling 37 per cent of all Forex trading in 2016. After London, the next strongest markets are the United States with 19 per cent of the worldwide Forex turnover in 2016, followed by Singapore (8 per cent), Hong Kong SAR (7 per cent) and Japan (6 per cent).(2) By far the most traded currency is - unsurprisingly - the US dollar, leading the competition with 44 per cent of all currency trades. Second and third place are taken by Euro and Japanese Yen, with 16 and 11 per cent respectively. Pound sterling follows behind with only 6 per cent.(3)

The growth in Forex market turnover, reaching 4 trillion in 2010 and almost 5.1 trillion US dollar in 2016, is partially based on an increasing amount of private investors partaking in the currency market. Extensive trading times (round the clock, excluding weekends), high liquidity and leveraged trading are the qualities which attract a wide audience of private traders. Individual and small institutional investors aggregated a daily turnover of around 150 billion dollars in 2010's spot Forex trading. Forex Magnates quantifies the daily currency trading volume of retail clients at 270 billion US dollars around the end of 2011.

Private investors usually trade via so-called "retail providers" – online Forex dealers like the Admiral Markets Group – which simplify Forex trade for private users. According to Greenwich Associates reports, 12 per cent of 2009's worldwide Forex trade were handled by those service providers. In 2010. Their influence dropped slightly but has seen a steady growth since then.

The technological advance of electronic transaction processing has greatly facilitated the increasing number of retail clients as significant participants on the Forex market. Electronic commerce and its mediation reduces transaction costs and increases market liquidity – leading, in turn, to smaller trades becoming more profitable. Additionally, trading with Forex accounts for private users usually comes without order fees. More than 60 per cent of worldwide currency trading is processed electronically, estimates Greenwich Associates in its report from April 2012.

Furthermore, another product group is becoming more and more important in this branch of industry. So-called CFDs, or Contract For Differences, offer retail clients the option to partake in the trade of indices, even with relatively low amounts of invested capital. Similarly to the Forex market, leveraged trading is possible and used to generate large profits with low capital risk.

CFDs allow traders to profit when trading indices on both rising and falling prices, as they allow buy orders and sell orders. Contrary to many other financial products, CFDs do not expire and positions can be held indefinitely.

This is why many private traders prefer CFDs as investment products for popular markets, like the DAX30, Dow Jones or SP500. According to a survey of the Investment Trend Institute in 2016, there have been 50,000 investors involved in CFD products in Germany alone. Compared to the last report, this is an increase of 6%.(4)

Low order fees and spread costs, as well as an extremely user-friendly and easy-to-handle access to index trading, are all important factors for the increasing popularity of CFD products.

---

(1) http://www.bis.org/publ/rpfx16.htm

(2) http://www.bis.org/statistics/d11_2.pdf

(3) http://www.bis.org/statistics/d11_1.pdf

(4) http://www.cfd-portal.com/cfd-broker/cmc-markets-news/studie-investment-trends-2016-cmc-markets-bleibt-marktfuehrer-in-deutschland/