



Major Currency Pairs in Forex Market

The Importance of Major Pairs

The Forex market is a place where trading happens in all currencies. However, the volume of trade that is conducted in different currencies is very different. Hence, **even though there are hundreds of currencies in the world, about two thirds of the massive \$4 trillion dollar Forex volume is transacted in just 4 currency pairs! These 4 pairs are referred to as the major currencies.** The movement in these pairs is the most watched metric in the Forex market and is considered to be the overall barometer of the market. Therefore when currency experts talk about the Forex market rising or falling in general, it is these pairs that are being referred to. In this article, we will have a closer look at the 4 major currency pairs.

The Big 4:

EUR/USD:

The EUR/USD currency pair is the most actively traded currency pair in the world. Almost all the leading banks in the world have dedicated traders who trade exclusively in EUR/USD. Even though Euro has only been recently introduced as a currency, it has rose to immense prominence and has become a part of the most traded currency pair in the world.

It is important to understand that in the EUR/USD pair, Euro is the base currency. This means that all the contracts pertaining to EUR/USD are denominated in Euros. This can be contrasted with the fact that the movements in prices as well as the profit and loss calculations are denominated in terms of the United States Dollar.

Also, since the United States dollar is the more widely accepted and liquid currency amongst the two, all the margin payments are usually required to be made in terms of USD!

Trading this currency pair has several advantages. One of these advantages is the fact that the spreads are lowest on this pair. This means that there are minimum transaction costs if you trade the EUR/USD pair. This lower spread can be attributed to the fact that the EUR/USD pair is the most liquid currency pair in the world and there are several traders and market makers that are always offering quotes for this pair.

USD/CHF:

The Swiss Franc is considered to be the safe haven of currencies. The USD/CHF pair therefore falls in value when the world considers the United States Dollar to be a safe investment. However, when the dollar appears to be in danger, investors are keen on investing in the Swiss Franc. It must however be noted that the value of this pair is largely dependent on the capital flows in the Swiss banking system which is known worldwide for its secrecy! Also, the reputation of Switzerland as a

stable country with sound economic fundamentals adds to the reputation of the Swiss Franc for being a safe haven amongst currencies.

USD/JPY:

The Japanese Yen, after the United States Dollar and the Euro, is the third most actively traded currency in the world. As such, the USD/JPY pair is of extreme importance. According to some estimates, trading in this currency pair single handedly accounts for about 20% of the Forex trade in the world. Also, one must understand that USD/JPY is an extremely volatile currency pair. It is notorious for being range bound for a long period of time and then showing sudden fluctuations as it moves to a new homeostasis at a different price level. This currency pair shows the maximum sensitivity to changes in the United States interest rate. This is because the Japanese government holds massive amount of United States debt and any changes in the yield severely affect the cash flow of the Japanese government.

In this case, the United States Dollar is the base currency. Therefore all contracts pertaining to USD/JPY are denominated in United States dollar. However, the movements of prices as well as the profit and loss calculations are denominated in the Japanese Yen.

Once again, since the United States Dollar has unmatched liquidity, margin payments are always collected in terms of USD.

GBP/USD:

The British economy is amongst the most important economies in the world and the trade relationships between the Great Britain Pound and the United States Dollar is of prime importance. This pair is one of the oldest currency pairs that is traded in the market. As such, it has a nickname and is referred to as the "Sterling"

The Sterling has a massive trading volume and the GBP/USD pair account for about 8% of the trading volume in the Forex markets. This currency pair is extremely sensitive to news regarding the United States dollar. Also, it is important to note that this pair has a positive correlation with the EUR/USD pair. If the EUR/USD pair moves 5% in a certain direction, then the GBP/USD pair will move 8% in the same direction. At the same time, there is a negative correlation between the GBP/USD pair and the USD/CHF pair.

These 4 currency pairs also have strong correlations with many other currencies. Therefore if there is a movement in these currency pairs, it is likely to affect the entire Forex market and therefore the entire world.