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Types of Orders in the Forex Market

Why Orders are Important in Forex Markets?

There is a need for some form of automation in the Forex markets. This is because the market runs 24 by 7. Therefore, the value of investor holdings and therefore their net worth keep changing 24 by 7. Hence if an open position is not managed for a few days, its monetary value could drastically change. Also, it is not possible to actively manage the positions 24 by 7 manually until you are a big multinational corporation and can hire people to work around the clock.

Therefore, in such a scenario, market orders come in handy. These are tools which investors and traders in the Forex market use to passively manage their open positions. These tools allow the investors to ensure that the value of their trades remain within certain bounds even though the market moves 24 by 7!

Market Order

Market orders are the most common type of orders used in the Forex market. Simply put, it is just an order to buy something at the current market price. Therefore, if you have ever purchased anything online, the “Buy Now” button kind of performs the functionality of what the market order does in the Forex market.

Therefore, it can be said that the market order is executed on a real-time basis when placed. This order automatically searches the best possible price available in the market and books your order at that price. Since the prices in the Forex market are changing so rapidly, it is possible that the market order may get executed at a slightly different price than you intended to! This is what is known as slippage in market terminology. Slippage may sometimes work in the favour of an investor whereas at other times it may work against an investor.

A market order becomes an open position immediately. As such, profits and losses that accrue on this order have to be realized when the position is closed.

Pending Order

A pending order is an instruction to execute a buy or sell trade i.e. a market order only when certain conditions are fulfilled. Therefore, one can consider it to be a conditional market order. Pending orders are therefore not executed and not considered to be a part of margin calculations till they are actually executed. Pending orders eliminate the need to be continuously monitoring the market to be able to make a trade. Instead it enables traders to set up automatic orders that will execute trades in an instant whenever the specified conditions are met. Orders like pending orders reduce the need of manual intervention in trading.

Profit Booking Order

Profit booking orders are usually orders to square off a long open position i.e. to sell. These orders specify the conditions that need to be met before the square off takes place. For instance, an order to execute a trade if the profit reaches 10% or there is a 12% price rise is a profit booking order. These orders enable traders to book profits in a market where prices change rapidly and manual placing of orders may take a lot of time.

Stop Loss Order

A stop loss order is the reverse of a profit booking order. However, it is used much more widely in the markets than the profit booking order. The order specifies a downward threshold that the investor is willing to bear. If the prices fall beyond this threshold, the investors sell their holdings with the intention of minimizing their losses.

Therefore, an order to square off a long open position when prices plummet is called a stop loss order. Once again, this order acts quickly and prevents losses by acting much faster than manual intervention could.

Trailing Stop Order

A trailing stop order is similar to a stop loss order. This means that this order also sells off an open position when the price hits a given floor. However, in this case the floor moves upwards in case there is a profit. Let’s say you create a trailing stop order at 10% below the market price. The next day the value of your holding has increased by 15%.

In case of a stop loss order, the price floor would remain the same i.e. 10% below the price where you originally started the trade. However, a trailing stop order trails the market price. In this case, the price floor would be 10% below the new market price i.e. after the price has reached a new high level.

Dependent Orders

The Forex market also allows investors to create dependent orders. This means that the investor can place two orders simultaneously and based on the conditions in the market only one of them will be executed. Alternatively, the placing of one order could trigger the placing of another order sometime in the future. Dependent orders can be used to design complex algorithms which execute trades with minimal human intervention.

The Forex market is moving more and more towards utilization of artificial intelligence for executing trades. Many believe that this is the only way to effectively trade a market as volatile as the Forex market and which moves on a 24 by 7 basis!