

Trading Instruments



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Content

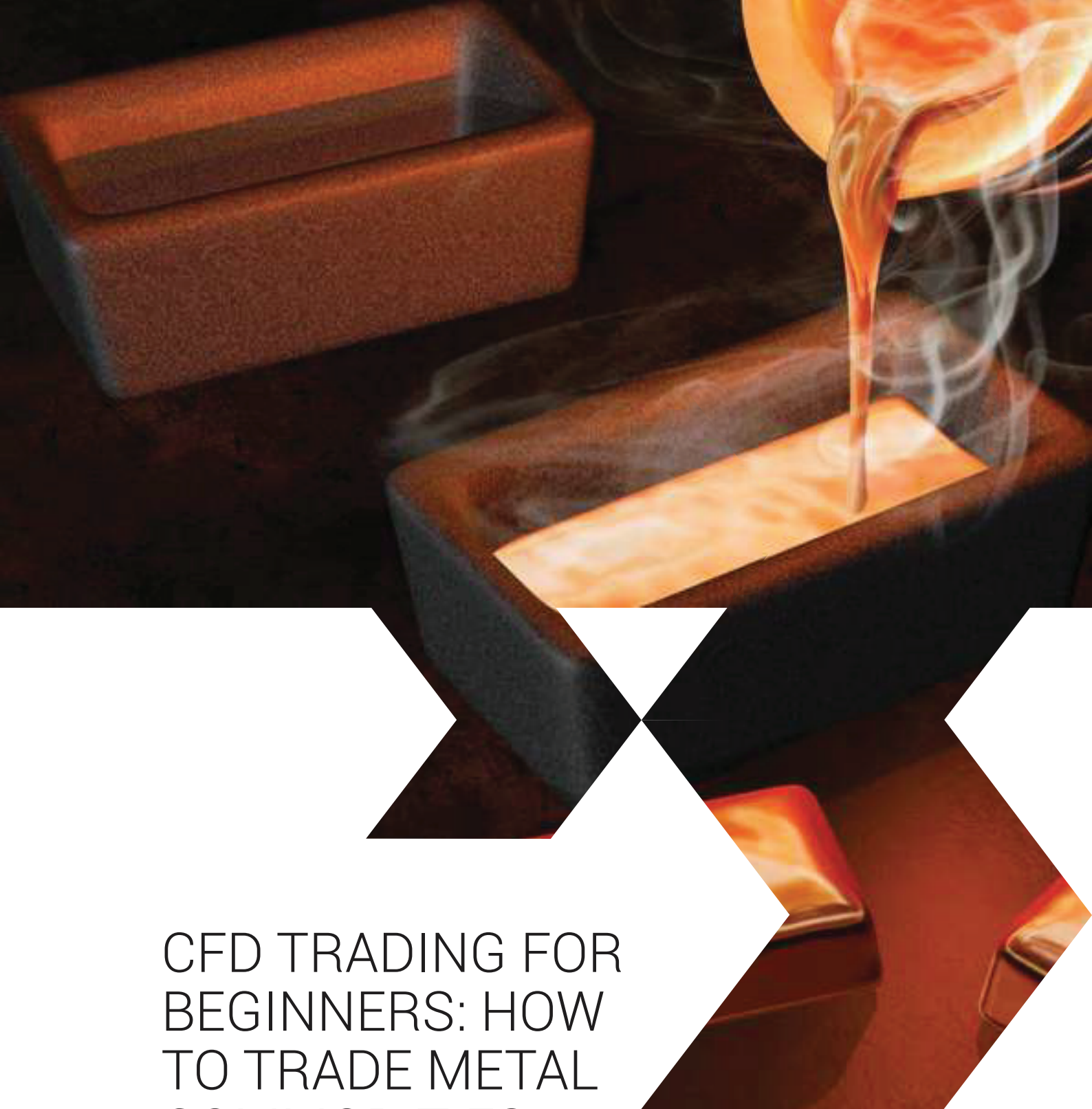
Content

- | | |
|---|----|
| 1. CFD Trading for Beginners: Understanding Metal Commodities | 3 |
| 2. Forex Basics: The Dominance of the US Dollar | 13 |
| 3. Why Use a CFD Account for Stock Trading? | 22 |

Chapter 1

CFD Trading for Beginners: Understanding Metal Commodities

This CFD trading for beginners lesson will help you understand how to trade popular metal commodities such as gold and silver through a CFD contract.



CFD TRADING FOR BEGINNERS: HOW TO TRADE METAL COMMODITIES

In this article on CFD trading for beginners, we will introduce you to metal commodities, including the most widely traded metals.

Throughout history, metals have played a very important role in human development. By simple definition, metals are hard

elements presented in a solid state. Metals are characterised by their shiny appearance, preciousness, and their electrical and thermal conductivity. Generally, there are two types of metal commodities:

- **PRECIOUS METALS**

- **BASE METALS**

Precious Metals are very rare and have high economic value. People use precious metals as investment instruments. Investors prefer holding metals in their portfolio as these metal commodities have been able to generate high returns in the past. Some of the leading precious metals in the commodities market are gold, silver, platinum, and palladium. Traders in the commodities market consider precious metals to be a form of money with great value.

Base Metals are widely used in commercial and industrial applications. These metals are sometimes used in construction projects as well. Some of the leading base metal commodities are aluminium, copper, steel, iron, and zinc.

This CFD trading for beginners lesson will discuss the history of both precious and base metals and how they are traded on the CFD market today.





HISTORY OF TRADING COMMODITIES

The history of commodities trading is as old as human civilization. The commodities have always been there as a medium of exchange. In the old days, people use to trade one commodity for the other, for example copper for silver. But as human civilization grew and changed over time, people started using commodities to buy and sell property and goods. Governments introduced gold and silver coins for commerce. According to history, the first gold coin was launched in about 643 BC by the Lydians, they started using these gold coins as a medium of exchange. By about 560 BC, the Lydians learned how to separate gold from silver which helped them to introduce silver coins as well.

The first one pound coin was introduced under King Henry VII in 1489. Later on, many countries around the world introduced their coins for buying and selling. The modern-day use of paper money was first started in China under Tang Dynasty (A.D 618-907). In today's economic world, paper money is the widely used as a medium of exchange, but modern-day paper money is also backed by the commodity reserves like gold.

COMMONLY TRADED METALS

The trading of metal commodities has changed significantly since those early days. These days, metal trading is being done on different commodity exchanges through futures and derivative contracts. Some of the most commonly traded metals on commodity exchanges are:

- ✓ **Gold**
- ✓ **Silver**
- ✓ **Copper**
- ✓ **Zinc**
- ✓ **Platinum**
- ✓ **Palladium**

- **GOLD**

Gold is one of the most precious metal commodities in the world. This precious metal holds the title of safe-haven asset among global investors. Jewellery manufacturers and electronic component suppliers drive the global demand for gold. Most of the emerging economies in the world consider gold jewellery to be a safe form of investment. The history of gold mining goes back to thousands of years ago when people discovered this precious metal and started using it as a medium of exchange.

People use gold as a store of value. They either buy and hold the precious metal or trade through an exchange. The traditional way of trading gold is through a commodity exchange, but there's an innovative way to trade the gold market and take advantage of price fluctuations, through contracts for difference (CFDs). Through CFDs you can open Buy and Sell positions on gold. You can make money when the price is going up and you can also make money when the price is going down.



● SILVER

Silver is the second most actively traded metal commodity in the world. Silver is another safe-haven asset for investors in economic turmoil. Throughout history, silver has had monetary applications in the market. Silver coins were very popular as a currency and many governments issued silver coins in the past as a medium of exchange. Like gold, silver has been used for jewellery in historic and modern times. Consumer demand for silver is also very high as people use this precious metal as a store of value in the form of silver coins or bars. Silver has some industrial applications as well such as being used for electrical wiring, so this precious metal continues to hold great importance in several arenas: investment, art, and technology. Just as we discussed with gold, traders can trade silver through CFDs as well.

● COPPER

Copper is the third most widely used metal commodity in the world. Copper is famous for its industrial usage. It is a great conductor of heat and electricity and is often used for wiring



and pipes. These applications drive a greater industrial demand for copper than for other metal commodities. In modern times, copper is also a popular choice for jewellers who cannot afford to work with gold or silver. Copper has always been a great investment vehicle for the investors as global demand of this base Metal has been increasing rapidly. China is the biggest consumer of copper, and any news or economic data from China will affect copper prices on the commodity market. Chile and the United States are the biggest producers of Copper. Traders can also trade Copper through CFDs.

- **ZINC**

Zinc is the fourth most widely used metal commodity in the world. The most common use of Zinc in the commercial market is as a coating in order to protect other metals such as steel from oxidization. It's mainly used in the process of galvanization.

- **PLATINUM**

Platinum has wide applications across different sectors, from jewellery to the manufacturing of catalytic converters (more on





this below). This metal is one of the most valuable metals in the world and investors hold platinum for the same reasons that they hold gold and silver.

- **PALLADIUM**

Palladium is a part of Platinum Group of Metals (PGMs). More than 50% of palladium production goes towards the production of automobile catalytic converters. Palladium could make an attractive investment as the demand for cars with catalytic converters is rising.

THE IMPACT OF SUPPLY AND DEMAND

In the metal commodities market, the main rule of supply and demand remains the same. If the demand for a commodity is greater than the supply, then the price will rise. If the demand for a commodity or an asset is less than the supply, then the price will fall. As both supply and demand in the commodity market is driven globally, there is no central authority controlling or manipulating the prices. That said, news from the world's largest suppliers or consumers of a commodity can have a major impact on the price. Let's consider the example of the world's most famous precious metal, gold. The top 5 Gold producing countries are:

- ✓ **Russia**
- ✓ **United States**
- ✓ **Canada**
- ✓ **Peru**
- ✓ **Indonesia**

As Russia and the United States are the two biggest producers of gold, any news regarding the production and supply from these countries can directly impact the price of gold. If the supply from these two countries is high as compared to the demand, then price is likely to fall in the market. Another example is copper. As mentioned previously, China is the biggest consumer of copper in the world. A slowing demand from China can have negative impact on copper prices. Supply and demand is not the only thing which can impact the price, there are other factors as well, such as global economic events.

GLOBAL ECONOMIC EVENTS

The global economy can have a great impact on metal commodities, specifically safe-haven assets like gold

and silver. In weak economic conditions investors prefer investment in metal commodities. Global economic events like global GDP growth, economic data of particular countries, and announcements from global central banks can have a great impact on the metal commodities market. As a metal commodities trader, you can trade the market to take advantage of price movement. One of the best ways to do that is to use a CFD. If you take the time to learn about CFD trading for beginners, one of the first lessons you'll learn is that you can trade the underlying metal commodity without owning the commodity.

CONCLUSION

To recap, metal commodities have always been an integral part of commerce, both on a personal, local level and internationally. The top two most actively traded metal commodities are gold and silver. Investors consider these two precious metal commodities as safe-haven investment assets in any economic turmoil. Other important metal commodities are copper, zinc, platinum, palladium, and steel (not covered in this article, but certainly worth learning more about on your own!). CFD trading is an increasingly popular method through which you can buy and sell commodities with leverage and low capital requirements. Another advantage of CFD is that it can be used as a hedging option. If you already own these commodities, you can hedge your positions through a CFD contract. We hope that this CFD trading for beginners lesson helps you understand the basics of this market!



Chapter 2

Forex Basics: The Dominance of the US Dollar

Understanding the US dollar is an essential part of forex basics. USD is the most widely used trading currency in the world and on the forex market.





FOREX BASICS: WHY IS USD THE TOP CURRENCY?

In order to understand the forex basics, it is essential to know the top currencies in the forex market. There can be no doubt about the fact that the United States dollar (USD) is the biggest currency in forex market, whether we look at trading volume or popularity amongst traders in the market.

The vast majority of trading in the forex market is being done in US dollars. USD is also the global reserve currency, almost every country in the world keeps their forex reserves in USD. Major global financial institutions like the International Monetary Fund (IMF), World Bank, and other institutes use USD as their preferred currency. The Federal Reserve Bank (often just called "the Fed") is central banking system of the United States and is the most influential institute as far as USD is concerned. The Fed is tasked with managing the US's money supply and overseeing banks, so any economic decision they make can cause market movement for USD.

There are many reasons why USD is such a popular trading currency amongst traders in the forex market. Primarily, it is

the most accepted currency in the world and the US economy is the strongest economy in the world which makes it a safe haven currency for investors.

A BRIEF HISTORY OF THE US DOLLAR

The history of the US dollar starts way back in the 18th century. On April 2, 1792, the US Congress created a standard unit of currency exchange for the country with the name of US dollar. The dollar was established as a gold reserved currency with each unit of USD backed by a certain amount of gold. Congress also created the Gold Reserve Act in order to protect the existence of USD and its backing by gold as a standard.

With the passage of time and the growth of the US economy, USD started to overtake other world currencies. In the 20th century, the world witnessed two of the biggest wars in the history of mankind, World War I and World War II. After these two conflicts, Asian and European economies had collapsed while the US economy was thriving. Because the US had provided arms to its allies and in return they had received gold reserves, the US economy had grown stronger and stronger. By the end of WWII, there was an essential need for big financial institutes to support the global economy. IMF and the World Bank were formed and USD was selected as their reserve currency because all the other major economies were suffering from economic destruction due to war.



USD'S USE AS THE GLOBAL RESERVE CURRENCY

Because the US dollar is the global reserve currency, it is also known as a safe haven currency in global financial markets. Investors gave this designation to USD because the US economy is relatively strong as compared to other economies in the world. There is a perception about USD in the financial market that even in tough financial situations they can rely on USD as a safe haven investment because the USD can survive a severe economic crisis. Leading Global financial institutions like IMF (International Monetary Fund) and World Bank keep their forex reserves in US dollars as opposed to any other currency, which makes USD even more important at an international level. As mentioned before, a majority of countries hold their forex reserves in US dollars which increases demand for the dollar globally. There is high demand for USD everywhere in the world; from developed economies like Japan to emerging economy like Indonesia, every country prefers to deal in the US dollar.





A POPULAR CURRENCY IN BILATERAL TRADES

USD is the most popular currency in bilateral trades all around the world. When two countries trade with each other, they normally prefer to trade in USD as compared to their own currency. There are many reasons driving this preference. Primarily, their national currencies may not be stable as compared to USD. For example, if China and India are trading with each other, their trading volume is always in US dollars and not in their national currencies of yuan and rupees respectively. Traders prefer USD because of global demand and its use in foreign reserves. The more USD you have, more foreign exchange reserves you are able to maintain.

ENDURING POPULARITY WITH RETAIL TRADERS

The US dollar is very popular amongst retail traders all around the world. Forex traders usually prefer trading in USD related pairs, like EURUSD, GBPUSD, USDCHF, USDJPY and others. USD is a stable currency as compared to some other currencies in the market which gives retail forex traders some stability about their trading in the forex market. USD is widely traded currency all across the globe. Most of the trading in the international forex market is being done in USD related pairs, in fact more than 50% of retail forex trading being done in international market is in USD related pairs. The euro is the second most popular currency in the world followed by yen and GBP.

There is no doubt about the dominance of USD in forex market. USD is readily available to trade across the forex market, due to its popularity amongst traders and its acceptability as a leading currency in the world. USD is available to trade at each and every forex broker in the market, all the leading forex brokers in the market offer their services in USD trading. Traders can trade USD through USD Index trading as well where value of the USD Index is derived by adding the value of USD against a basket of currencies, but still the most popular currency pair amongst traders is EURUSD.

MOST POPULAR USD PAIRS

Some of the most popular USD trading pairs are:

- ✓ **EURUSD**
- ✓ **GBPUSD**
- ✓ **USDJPY**
- ✓ **USDCHF**
- ✓ **AUDUSD**

Most of the trading in the international forex market is done in EURUSD, followed by other USD pairs like USDJPY and GBPUSD. In addition to the forex pairs mentioned above, there are some other forex currency pairs including USD which are popular amongst traders, including NZDUSD and USDCAD.

● **EURUSD**

EURUSD is the most popular trading pair in forex market, more than 23% of overall trading in forex market is being done in EURUSD. Why does this pair have such enduring popularity? EURUSD has always provided opportunities to traders, as this pair is widely traded across all regions. The EURUSD pair provides volatility and with that an opportunity for traders to trade the market. USD and EUR are the two strongest economies in the world and they conduct their mutual trades in their national currencies. It's inevitable that this would lead to a strong presence on the forex market as well.

● **GBPUSD**

Before the emergence of USD, GBP was the most popular currency in the world. Due to many economic and geopolitical situations, GBP lost its value and popularity over time. Still, the pair of GBPUSD is pretty popular amongst traders as the political situation in the UK often leads to market movements that can result in profits. Traders normally trade this pair on the basis of news and market developments.

● **USDJPY**

USDJPY is a popular trading pair for Asian traders. As the yen is the national currency of Japan, many traders in Asia prefer trading in yen-related pairs, and USDJPY holds the title of the most popular currency pair of Asian trading session. USDJPY is a volatile currency pair which gives you ample opportunity to trade.

● **USDCHF**

USDCHF has always been one of the most talked about currency pairs in the world. Who can forget sudden



announcement by Swiss National Bank about interest rate in 2015, which led to market destruction? Many brokers in the market at the time actually got liquidated by this event because no one was expecting such a highly volatile move, but it happened. Ever since, this pair has remained popular for extremely volatile movements in the market.

- **AUDUSD**

AUDUSD has always been one of the most stable currency pairs related to USD. Bilateral trade between US and Australia is stable. For that reason, AUD paired with USD is considered an ideal pair for range trading, which some traders in the market really like.

DEVELOPING USD TRADING STRATEGIES

Once you have the concept of forex basics and knowledge of the most commonly traded currencies, it is essential to know about trading strategies that you want to use for different currency pairs. If you are trading forex USD related pairs then your strategy would be according to the pair.

Strategy is an essential part of forex basics. In all USD related pairs the most important thing you need to consider while trading is the importance of "trading with the timeframes." All USD related pairs are volatile when the US trading sessions kicks off. For Asian and European traders, it is essential to develop their trading strategy according to the timings of the USD session, so trading in active hours is very important factor that you need to consider if you are trading in USD related pairs. USD pairs are normally stable as compared to exotic pairs but that doesn't mean traders can discard all caution. It is essential to have proper risk management techniques in your trading strategy, always use stop loss and take profit levels.

Traders who wish to profit off of the movement of the USD should pay attention to announcements from the Fed, the US election cycle, and other major economic or political news from the United States. Even this stable economy sees fluctuations from time to time, and the smart trader should plan accordingly!



Chapter 3

Why Use a CFD Account for Stock Trading?

Meta description: There are many ways to trade stocks, directly and indirectly. A CFD account is a great choice that should not be overlooked.



USE YOUR CFD ACCOUNT FOR STOCK TRADING

There are various methods, strategies, ways and associated accounts to directly or indirectly trade stocks online. The use of a CFD account for stock trading counts among the more popular, cost-effective, interesting, and exciting ways to indirectly trade on stocks. CFD, short for contract for difference, is a financial derivative or leveraged product that enables players in the financial markets to profit from differences in price without having to own the actual investment instrument or asset.

WHAT IS A CFD ACCOUNT?

A CFD trading account, in short CFD account, is in essence an account, financial derivative, or margin traded product that allows the account holder to trade on stocks (shares), commodities, forex, indices, and more via contracts for difference (CFDs).

A CFD is simply an agreement between two parties, normally a broker and a trader, in terms of the expected price movement of an investment instrument or asset some time in the future. One party goes 'short' and expects to profit from a fall in price while the other party goes 'long' and expect to profit from a rise in price. Depending on which way it goes, the party that loses the 'bet' has to pay the price difference to the other party.



CFDS FOR STOCKS VS OTHER METHODS OF ONLINE STOCK TRADING

How do CFDs for stocks or CFD shares as offered via a CFD account compare to other methods when it comes to online stock trading? To keep it simple and more digestible - regardless of whether it is an account, method, strategy or way, let's consider the following in no specific order:

CFD TRADING VS STOCK TRADING

Both these forms of trading allow you to take advantage of the movement of prices in financial markets. However, it is important to understand that CFD trading, unlike stock or share trading, doesn't involve the trading or transfer of actual stocks or the ownership thereof. CFD trading is at best an indirect form of stock trading where you in essence speculate about the future market price of a stock without actually owning any stocks. This is how these two forms of trading compare:

- **Long/Short**

Share trading only allows you to profit from rising stock prices. CFD trading enables you to profit from both rising and falling prices by going 'long' or 'short' - leaving you with the option to profit in both bear and bull markets. This makes CFDs ideal to use as part of a hedging strategy to protect your share portfolio against adverse price movements.

- **Leverage**

You don't own the underlying financial instrument or stock. This means you only have to pay a fraction to benefit from leverage when trading CFDs. In addition, the majority of CFD traders make use of loan finance provided by brokers. This makes high leverage trading possible. Interest is normally only charged on positions financed for longer than a day (also see Day Trading below). It is important to keep in mind that profits and losses can be amplified beyond the initial deposit when it comes to CFDs.

In terms of stock trading you need to pay the cost of a position in full and upfront. This can be a burden, but it is something that helps to limit the maximum loss your position can potentially suffer. The reason being, it is impossible to lose more money on a position than you have initially invested in such instance.

- **Time Horizon**

CFDs are best for trading or speculation over the short-term. If you wish to have exposure to a stock/share long-term, it is better to buy it outright than attempting to do so via CFDs. That being said, CFDs can be great for hedging or protecting your stock/share portfolio against adverse price movements in multiple short-term intervals over the long-term.



● **More Options**

CFD trading provides you with the option to trade various financial instruments (commodities, forex, indices, etc.) from one account. This means more markets are available and in different geographical locations and time zones. This leaves you with the option to trade CFDs 24/7 - around the clock.

Share trading done via one account normally limits you to the opening hours of the stock exchange where your shares are listed. Stock/share trading also limits you to stocks and exchange-traded funds (ETFs).

● **Limited Perks/Rights**

Share trading allows you to own stocks. This ownership, even if you own only one stock, comes with perks and certain rights that are not available in CFD trading. The reason for this is because you become a partial owner of the companies or businesses in which you hold shares.

● **Low Commissions**

Commissions charged in terms of CFD trading used to be non-existent or much lower than the commissions charge in terms of stock broking. In the early days, commission-free trading of CFDs was pretty much in the order of the day - probably to entice traders and other interested parties to give it a try. Nowadays some CFD brokers still offer commission-free trading, but be careful - as your profits may be diminished by spread costs. That being said, the commissions charged in terms of stock trading have come down quite a bit in the last few years - to the point where there is almost no difference in commissions in some jurisdictions today.



● No Dividends

No dividends are paid in CFD trading - only positions get adjusted. In share trading, when dividends get paid, you normally receive a dividend payment and have the option to adjust the weight of your shareholding in that particular stock by buying/selling more of the same share. In both instances, dividends normally affect stock prices as dividends are factored into prices by the market. E.g. "ex-dividend" prices are normally lower than prices before any dividend payment.

● No Stamp Duty

In some jurisdictions such as in the UK there is no stamp duty payable on CFDs as you don't own the underlying asset or investment instrument as the case is in share trading. However, you will still have to pay capital gains tax (CGT) on any profits or gains made with CFD stocks.

● Day Trading

CFDs are great for day trading - speculation in securities within the same trading day. You are not hampered by stringent minimum capital requirements or limitations on the quantity of day trades that may be made within one account.

When you are day trading in the stock market, it is easy to be labelled a pattern day trader (4-5 day trades within 5 days per margin account, number of trades >6% of total trading activity over that 5-day period). In such instance, you have to maintain a minimum equity balance of \$25,000 in a margin account.

● Regulation

The CFD industry is not as regulated as the stock market. This normally means less fees, less commissions and less to no capital requirements. However, it is best practise to make sure that you choose the right CFD broker. You have to do a background check. Factors such as years of industry-related experience, life span, financial position, and reviews by clients are important factors to consider.



CFD ACCOUNTS VS STANDARD BROKERAGE ACCOUNTS

A CFD account, as previously noted, is a margin traded product that allows you to indirectly trade on stocks (shares), commodities, forex, indices, and more via CFDs. On the other hand, a standard brokerage account is an investment account that normally allows you to directly trade or invest in bonds, stocks, and mutual funds. Each comes with each own set of pros and cons - and since the one is tied to CFDs and the other to stock trading - comparisons can be made between the two by looking at the section above covering CFD Trading vs Stock Trading.

CFDS FOR STOCKS VS SPREAD BETTING FOR STOCKS

In order to make up for a lack of commission, spread betting for stocks usually offers wider spreads than the case is with CFDs for stocks. This means 'long' and 'short' positions have to be extended in order to generate the same returns as CFDs. In addition, CFDs for stocks offer more transparency as underlying markets are tracked directly, making it easier to see what makes up CFD pricing – and also easier in terms of predictions. Furthermore, spread betting for stocks is only suitable for day trading – as it gets automatically settled at the end of each trading day. There is the option to renew, but it is much more of a hassle than the case is with CFDs.

Spread betting for stocks tends to come with more tax benefits, is denominated in your local/base currency, and no commission is charged, which usually makes it a cheaper option than CFDs.



CFDS FOR STOCKS VS FUTURES FOR STOCKS

CFDs for stocks make it easy for almost anyone to participate. In contrast, futures contracts can cost a lot of money due to the size of the contracts. In addition, both offer relatively good liquidity. However, due to the direct involvement of CFD brokers, CFDs tend to be more liquid than futures. Another advantage of CFDs is the option to extend CFDs beyond the expiration date. This is not possible with futures.

Futures offer more transparency and makes it more cost-effective to trade in high volumes than CFDs.

CFDS FOR STOCKS VS OPTIONS FOR STOCKS

CFDs for stocks offer better price transparency and more trading options are available than the case is with Options for stocks. Options are optional to exercise while CFDs place a legal obligation on the parties involved to take a profit/loss.

