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History of FOREX trading

Major Landmarks

that have influenced the Foreign Exchange Market

- BRETTON WOODS AGREEMENT
- SMITHSONIAN AGREEMENT
- THE EUROPEAN SNAKE
- OPEC OIL CRISIS
- EUROPEAN MONETARY SYSTEM
- MAASTRICHT TREATY
- EURO EMERGENCE

MORE PROFITABLE TRADERS

Advances in technology, computer software, telecommunications and increased experience have increased the level of trader' sophistication, their ability to both generate profits and properly handle the exchange risks."

FREE FLOATING CURRENCIES

At the end of the 70's the free-floating of currencies was officially mandated, this became the most important landmark in the history of financial markets in the 20th century.

BRETTON WOODS AGREEMENT - 1944

Before the end of World War II, the Western Allied Powers believed that there would be a ne monetary system in order to fill the void that was left behind when the fold standard system I The Bretton Woods Conference, held in New Hampshire in 1944 was an attempt to restore si relationships between international currencies and the international payment system. The ag the development of: A method of fixed exchange rates; The US Dollar replacing the gold stan a primary reserve currency; and the creation of three international agencies to oversee econc International MonetaryFund (IMF), International Bank for Reconstruction and Development (World Bank), and the General Agreement on Tariffs and Trade (GATT).

SMITHSONIAN AGREEMENT - 1971

The United states ran a series of balance of payment deficits in order to be the wold's reserve currency. 1970's US Gold reserves were so depleted That the US Treasury did not have enough gold to cover all t Dollars that foreign centreal banks had in reserve. Between Bretton Woods (1944) and 1971 various de of convertibility existed and the era saw the emergence of "strong" and "weak" currencies. In the early 1 the first doubts about the strength of the US Dollar began to spread with subsequent exchanges of gol US Dollar. This period also saw devaluation of Sterling in 1967 and the French Franc in 1969, and the revaluation of the Deutsche Mark. The downward pressure on the US Dollar had become huge, fuelled huge balance of payment deficit. Major countries (Germany, Holland, Switzerland, Japan) eithr formally revalued their currencies or let them float upwards. On 15 August 1971, US President Richard Nixon c the gold window, and the US announced to the world that it would no longer exchange gold for the US Dollars that were held in foreign reserves. This event market the end of Bretton Woods. The United Stal Government put an end to the convertibility of the Dollar at the Smithsonian converence held in December 1971. The Dollar was devalued and a new realighment of currencies took place.

THE EUROPEAN SNAKE - 1972

In early 1972 the German Government viewing the Smithsonian agreement with scepticism, encouraged its partners in Europe to form a mini system. The heart of this system was that European Currencies would maintain narrow bands with each other and would float together agaist the US Dollar. This system became known as the SNAKE. The Foreign Exchange Markets were experiencing levels of fluctuations totally new to the participants. The US Dollar was so weak that the German and Japanese Central Banks introduced controls to restrict Dollar inflows. Fixed rates within agreed bands were no longer possible. ence the Smithsonian Agreement was dead.

OPEC OIL CRISIS - 1976

In 1973 fixed exchange rates were a thing of the past. An ad hoc system of floating rates existed. It was envisaged that in a floating system currencies would find their own true levels. An embargo by Arab, and Arab supporting oil producing countries on nations who supported Israel in the 1973 Yom Kippur War led to oil shortages and price rises. Through a series of rapidly developing events, oil prices quadrupled by the end of 1973 and oil had to be paid for in Dollars. A huge demand for Dollars ensued. The Dollar strenghered and interest rates in the US rached very high levels.Countries which relied on oil imports now had a huge demand for Dollars where a short time back they were introducing controls to restrict the inflow of dollars.

EUROPEAN MONETORY SYSTEM (EMS) - 1979

The E.M.S. was a modified and more elaborate version of the SNAKE. Its overall objective was not only to stabilise the currencies of the European Economic Community (EEC) countries, but also to unify them at some future date. The EM's objectives were to create a stable conomic climate; to strengthen economic and monetary co-operation; to encourage economic and political integration and to set up a European Central Bank. The cornerstone of the system was the Parity Grid. This grid set constraints on exchange rate movements and imposed specific obligations on the individual Central Banks. Each Bank was required to keep te market rate for its currency within a certain band against all other member currencies.

THE MAASTRICH TTREATY - 1991

In December 1991, representatives of 12 European countries met in the town Maastricht with the bureaucratic goal of better coordinating economic policy. What emerged was a radical plan to ditch national currencies for a common money managed by a European Central Bank. The Treaty was signed on 7th February 2992 in Netherlands. Maastricht is perhaps the best known and most controversial of the European treaties. It defined the three stages of EMU which eventually led to the single currency, and set out the convergence criteria or economic tests that member states have to pass. Strict rules for those joining were agreed, including targets for inflation, interest rates and budget deficits. The treaty hay a tough time coming into force and faced an unprecedented pressure in most countries. It however, finally came into force in November 1993.

EURO - 1999

In January 1999, Euro was launched s an electronic currency used by banks, forex dealers, big firms and stock markets in 11 countries - Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, Netherlands, Austria, Portugal & Finland. Greece joined on the 1st January 2001. In 2002, Euro notes and coins became legal tender in 12 countries.

LARGEST financial market in the world

Sterilized intervention neutralizes its impact on the money supply. As there are rather few central banks that want the impact of their intervention in the foreign exchange markets to affect all corners of their economy, sterilized interventions have been the tool of choice. This holds true for the FRS as well. The sterilized intervention involves an additional step to the original currency transaction. This step consists of a sale of government securities that offsets the reserve addition that occurs due to the ntervention. It may be easier to visualize it if you think that the central bank will finance the sale of a currency through the sale of several government securities. Because a sterilized intervention only generates an impact on the supply and demand of a certain currency, its impact will tend to have shortto medium-term effect.

Currency trading has a long history and can be traced back to the ancient Middle East and Middle Ages when foreign exchange started to take shape after the international merchant bankers devised bills of exchange, which were transferable third - party payments that allowed flexibility and growth in foreign exchange dealings.

The modern foreign exchange market characterized by periods of high volatility (that is a frequency and amplitude of a price alteration) and relative stability formed itself in the twentieth century. By the mid-1930's the British capital, London, became the leading centre for foreign exchange and the British pound served as the currency to trade and to keep as a reserve currency.

Because in the olden times foreign exchange was traded on the telex machine, or cable, the pound received the nickname "cable". After World War II, where the British economy was destroyed and the United States was the only country unscarred by war, the U.S.Dollar, in accordance with the Breton Woods Accord between the USA, Great Britain and France (1944) became the reserve currency for all the capitalist countries and all currencies were pegged to the American dollar (through the constitution of currencies ranges maintained by central banks of relevant countries by means of the interventions or currency purchases).

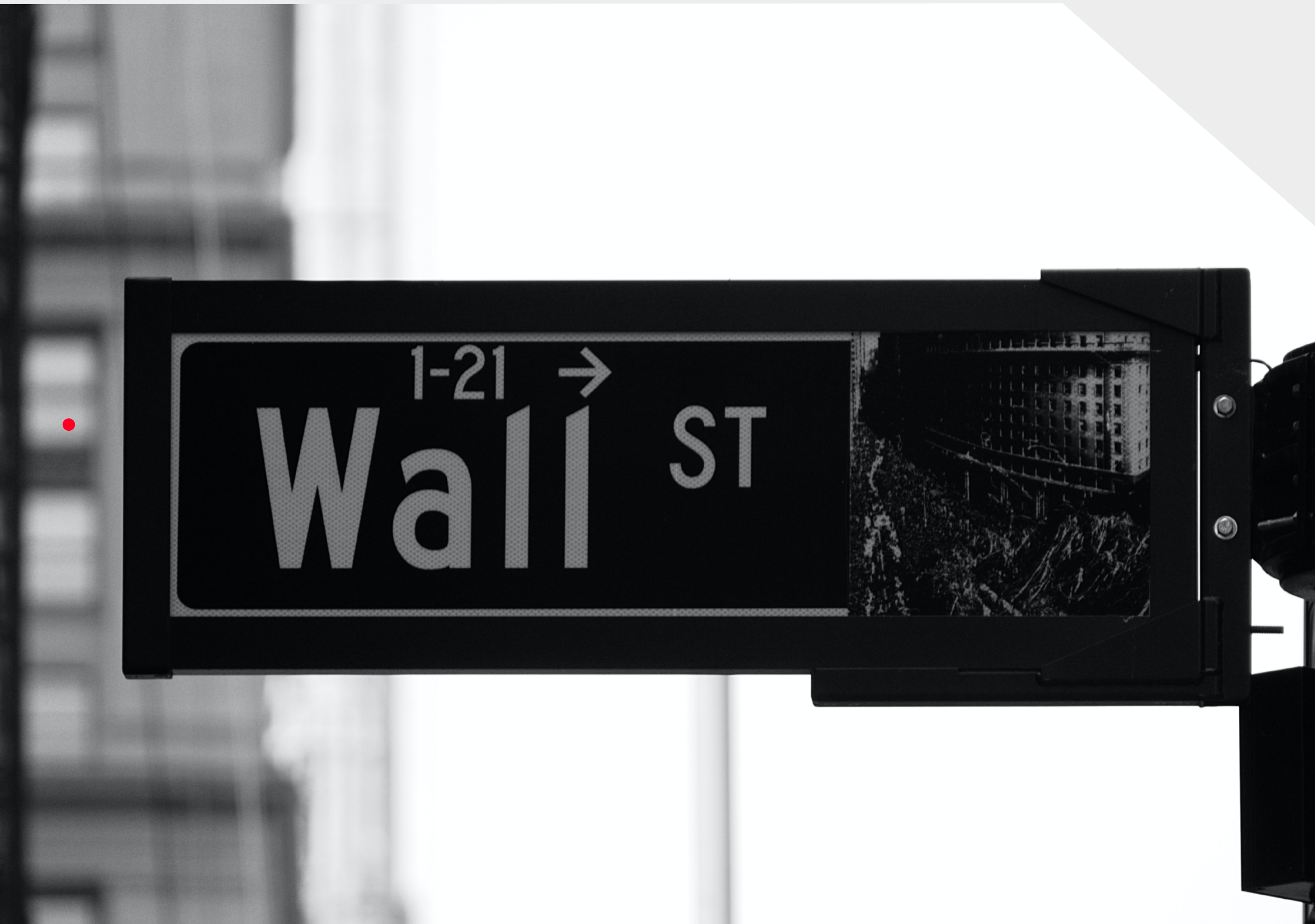
In turn, the U.S. dollar was pegged to gold at $35 per ounce. Thus, the U.S. dollar became the world's reserve currency. In accordance with the same agreement the International Monetary Fund (IMF) was organized, rendering a significant financial support to the developing and former socialist countries effecting economic transformation.

To execute these goals the IMF uses such instruments as Reserve trenches, which allows a member to draw on its own reserve asset quota at the time of payment, Credit trenches drawings and stand-by arrangements.

At the end of the 70's the free-floating of currencies was officially mandated, this became the most important landmark in the history of financial markets in the 20th century. The result of this decision was that the currency may be traded by anybody and its value is a function of the current supply and demand forces in the market, and there are no specific intervention points that must be observed. Foreign exchange has experienced spectacular growth in volume ever since currencies could float freely against each other. While the daily turnover in 1977 was U.S. $5 billion, it increased to U.S. $600 billion in 1987, reached the U.S. $1 trillion mark in September 1992, and stabilized at around $1.5 trillion by the year 2000.

LARGEST financial market in the world

Main factors influence on this spectacular growth in volume are mentioned below. A significant role belonged to the increased volatility of currency rates, growing mutual influence of different economies on bank-rates established by central banks, which affect essentially currency exchange rates, more intense competition on goods markets and, at the same time, amalgamation of the corporations of different countries, technological revolution in the sphere of the currencies trading. The latter exposed in the development of automated dealing systems and the transition to the currency trading by means of the internet. In addition to the dealing systems, matching systems simultaneously connect all traders around the world, electronically duplicating the broker's market. Advances in technology, computer software and telecommunications and increased experience have increased the level of trader' sophistication, their ability to both generate profits and properly handle the exchange risks. Therefore, trading sophisticationled toward volume increase.



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