Effective particles behind Currency rate Variations

by Vijaya Singh

Article published on January 20th 2012 | Investing

Currency is a medium of exchange. Every country has different currency rates as per their economy. Several determinants decide currency exchange rates. Now a dayâ€™s currency became an interesting instrument to trade. USD, INR, EUR, GBD, JPY etc. is major currencies that are traded in forex market.

Currencies rates decided through economic, political, gold, import and export, interest rate, financial deficits, employment data, inflation rate etc. Traders are very much eager to know currency fluctuations in forex market so that they can trade in forex market effectively. There are several factors/determinants for affecting currency rate variations.

1.-Import and export:

Import means incoming and purchasing of outside goods. Export means outgoing and selling of inside goods. Trade deficit of a company is dependent upon difference between import and export. If deficit is high i.e. import is more compare to export, it devaluates currencyâ€™s value. If export is more I.e. foreign currency is coming in bulk. It appreciates the domestic currency. Trade deficit should be less for currency appreciation.

Supply and demand decide flow of currency in country. Demand of goods appreciates currencyâ€™s value. Supply is more and demand is less then currencyâ€™s value depreciates.

2.-Macroeconomics:

The forex market is mostly determined by macroeconomic elements that decide the psychology of the traders who finally decide the value of a currency at any given point in time. The financial condition of a nation's economy is an important factor in the value of its currency. It is shaped by numerous economic events and information that may change on a daily basis, contributing to the (nearly) 24/7 nature of the international foreign exchange market. For example euro zone is facing economic problems due to high debt, in a result currencyâ€™s value is devaluate.

International Trade

Another factor is balance of trade levels and trends between nations. The trade levels between nations act as a substitute for the related demand of goods from a nation. Goods or services that are in high demand internationally will appreciate domestic currency. For example if you purchase goods from Australia, you must convert currency into Australian dollars (AUD) to purchase. The increased demand for the AUD will make pressure on it.

Political Conditions

The political scenery of a nation plays a vital role in the economic position for that country and finally perceived value of its currency. Forex traders regularly watch political news and events to measure what moves, if any, a country's government may take in the economy. These can include measures from increasing government spending to make restrictions on a particular sector or industry. An election is always a major event for currency markets, as exchange rates will often react more favorably to parties with fiscally responsible platforms and governments willing to pursue economic growth.

Economic Particles

It includes economic policy like fiscal (budget/spending practices) and monetary policy (the means by which a governments central bank influences the supply and cost of money, which is reflected by the level of interest rates) decided by government agencies and central banks. It also includes Inflation levels and trends: generally, a currency devaluate if there is a high level of inflation in the country or if inflation levels are supposed to be rising. Since inflation decreased purchasing power. Economic growth and health: Reports such as gross domestic product (GDP), employment data, retail sales, capacity utilization and others, detail the levels of a countryâ€™s economic growth and health. Government budget deficits or surpluses: The market usually reacts negatively to raising government budget deficits, and positively to narrowing budget deficits. The result is reflected in the value of a countryâ€™s currency. Balance of trade levels and trends: The trade flow between countries shows the demand for goods and services, which in turn indicates demand for a countryâ€™s currency to settle trade. Surpluses and deficits in trade of goods and services reflect the competitiveness of a nationâ€™s economy.

3.GOLD

Gold is widely used metals due to its outstanding role in both the investment and consumer world. There is a strong correlation between its value and the strength of currencies trading on foreign exchanges.

1. Hedge against inflation.

Investors typically buy large quantities of gold when their country is experiencing high levels of inflation. The demand for gold increases during inflation times due to its intrinsic value and limited supply. For example, in April 2011, investors feared declining values of domestic currency and the price of gold was driven to a staggering $1,500 an ounce. This indicates there was little confidence in the currencies on the world market and that expectations of future economic stability were grim.

2. Price of gold affects countries that import and export it.

Country that exports gold or has access to gold reserves will see an increase in the strength of its currency when gold prices increase. Increment in the price of gold can create a trade surplus or help offset a trade deficit.

3. Gold purchases tend to reduce the value of the currency used to purchase it.

When central banks purchase gold, it affects the supply and demand of the domestic currency and may result in inflation. This is largely due to the fact that banks rely on printing more money to buy gold, and thereby create an excess supply of the domestic currency.

Article Source:
http://www.articleside.com/investing-articles/effective-particles-behind-currency-rate-variations.htm - Article Side

Vijaya Singh - About Author:
Resources :- Ninik Rajput as E-Marketing Executive at TrifidResearch.com.
http://www.trifidresearch.com provides proved tips in Stock, Forex, Commodity.
http://forexcurrencytradingtips.blogspot.com/, http://currencytips.co.in/

Article Keywords:

forex market, currency exchange rate, gold, currency

You can find more free articles on Article Side. Sign up today and share your knowledge to the community! It is completely FREE!