

Introduction to Correlations



Correlations

- ✓ **Fact** : Forex Does not exist In a vacuum .All markets are interrelated and have an affect on each other
- ✓ **Ripple effect** : **Commodities** affect **financial markets** which then affect **equity markets** which affect **Forex Markets**
- ✓ **Cause and effect dynamic** which involves Inflationary Expectations changes in interest rates, corporate earnings, Stock Markets & forex fluctuations
- ✓ All the above markets are dynamically linked and have a direct influence on one another. **No market acts independently**

Correlations

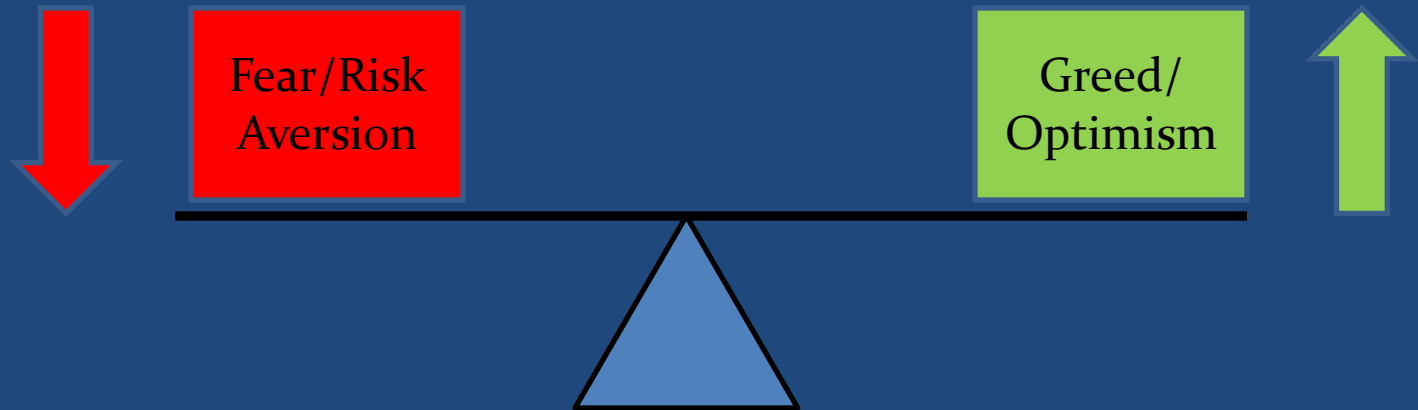
- ✓ **The key to successful forex trading** is understanding how these markets relate to each other and how past behavior can be used to predict future price action
- ✓ Understanding how markets respond to **Financial, Political and Economic forces** gives you a **competitive edge**
- ✓ By **applying Correlation rules** to the markets you have a true **leading indicator** which gives you clues to future price action
- ✓ Spotting these correlations are not always easy therefore you need some type of **system or tool that identifies trading opportunities**. The **Forex Dashboard** is one of these tools

Carry Trade Basics

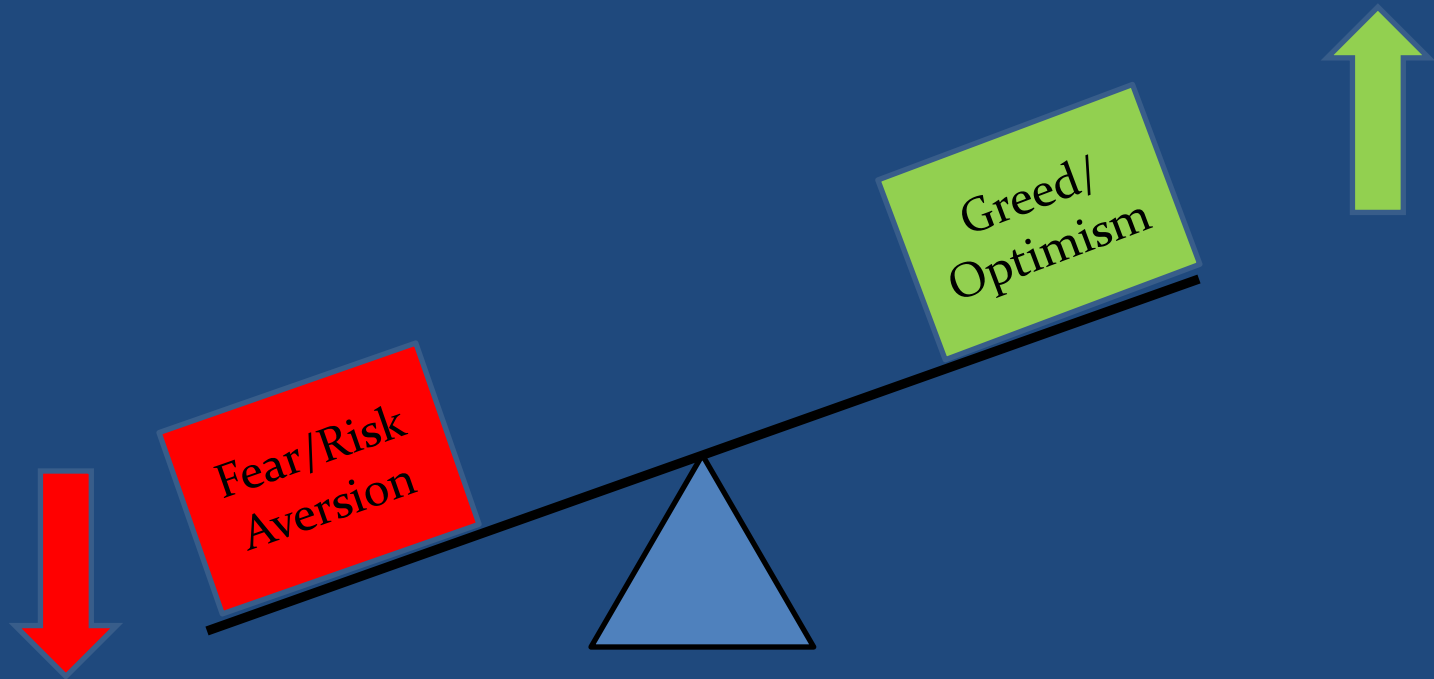
- ✓ What moves the markets ?
- ✓ Traders sentiment move the markets
- ✓ **Positive sentiment** : Traders Buy stocks as investment. If financial future is threatened they Sell. **Understanding Risk is key to determining market direction.**
- ✓ **JPY is low risk** due to lowest interest rate. To get a high return traders borrow in JPY & invest in higher interest currencies and assets.
- ✓ **High Risk** : Traders dump stocks and invest back into USD and JPY
- ✓ **Low Risk** : Economy perceived as stable dump low risk currencies (JPY & USD) and invest in higher returns (Stocks , GBP, EUR)

Market Dynamics

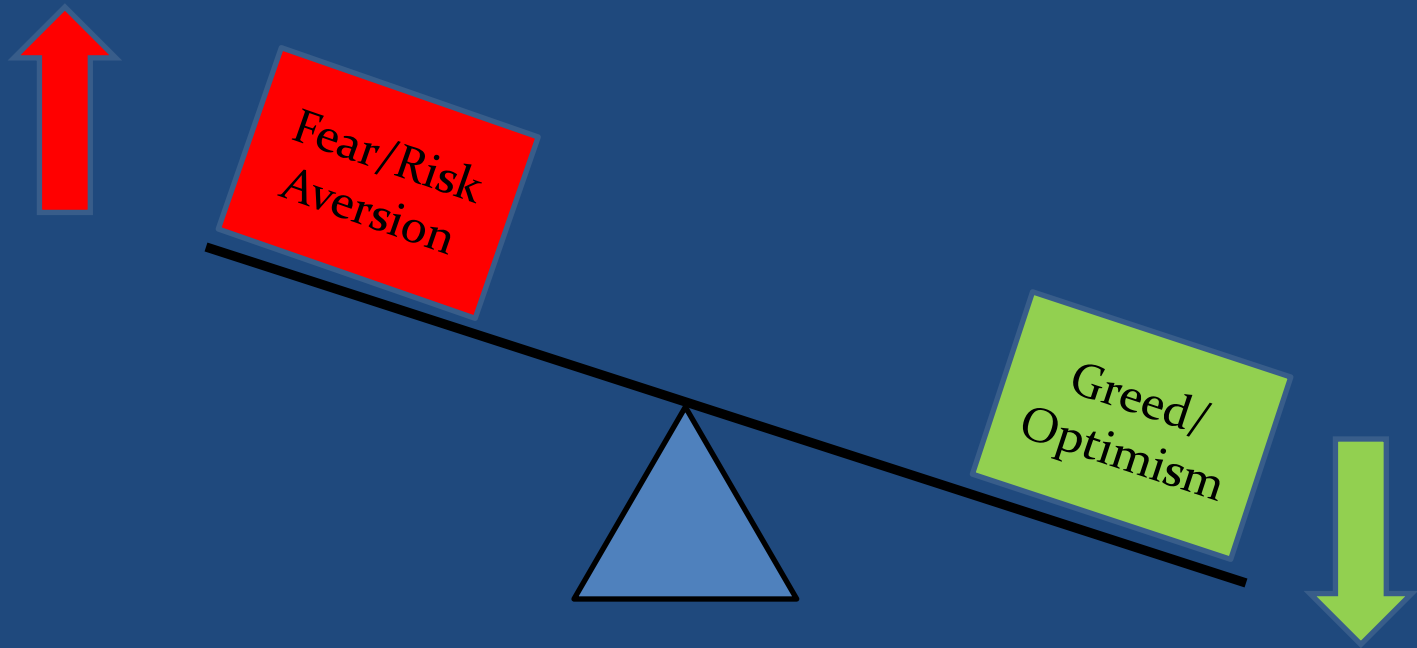
Sentiment



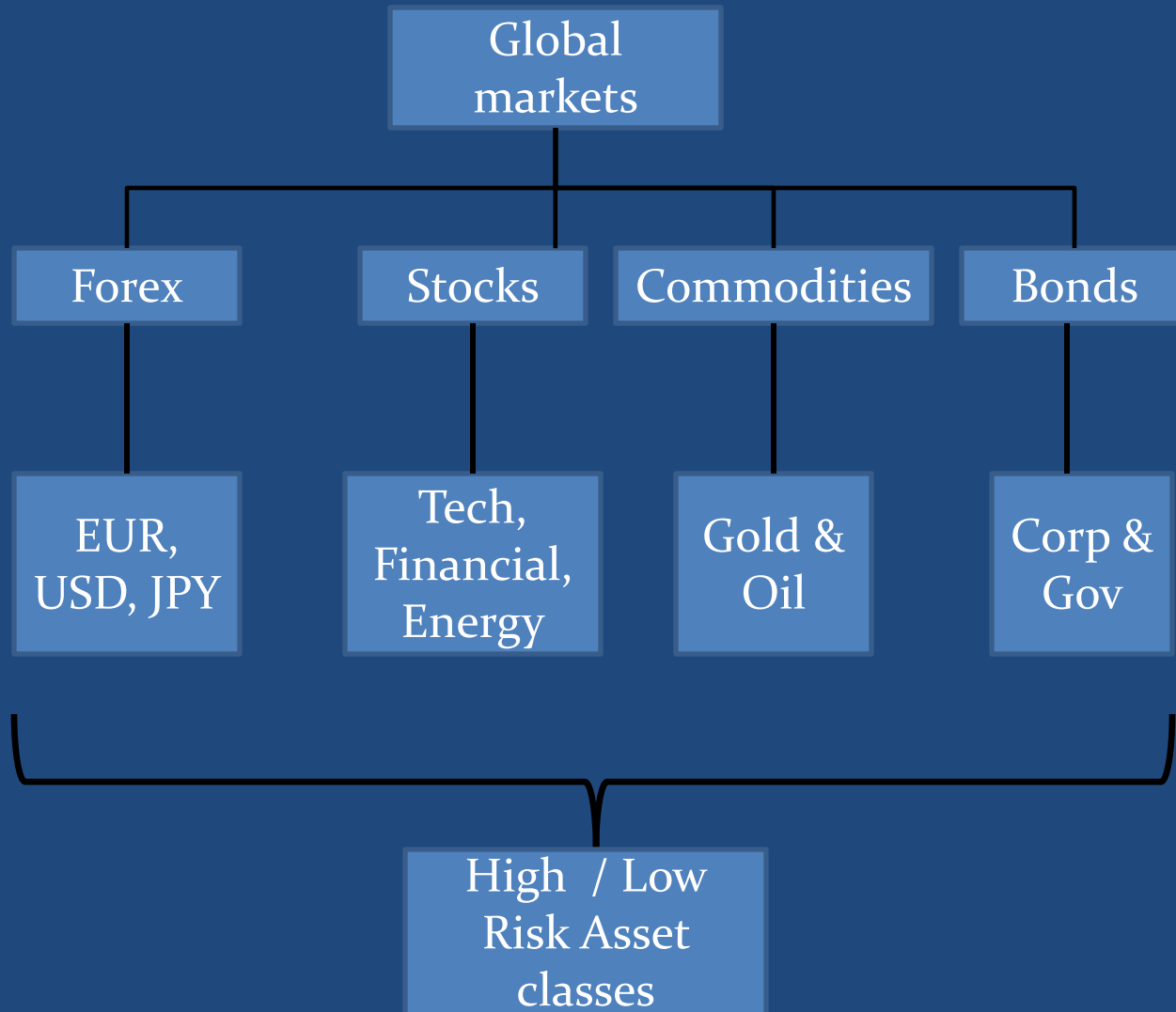
Market Dynamics



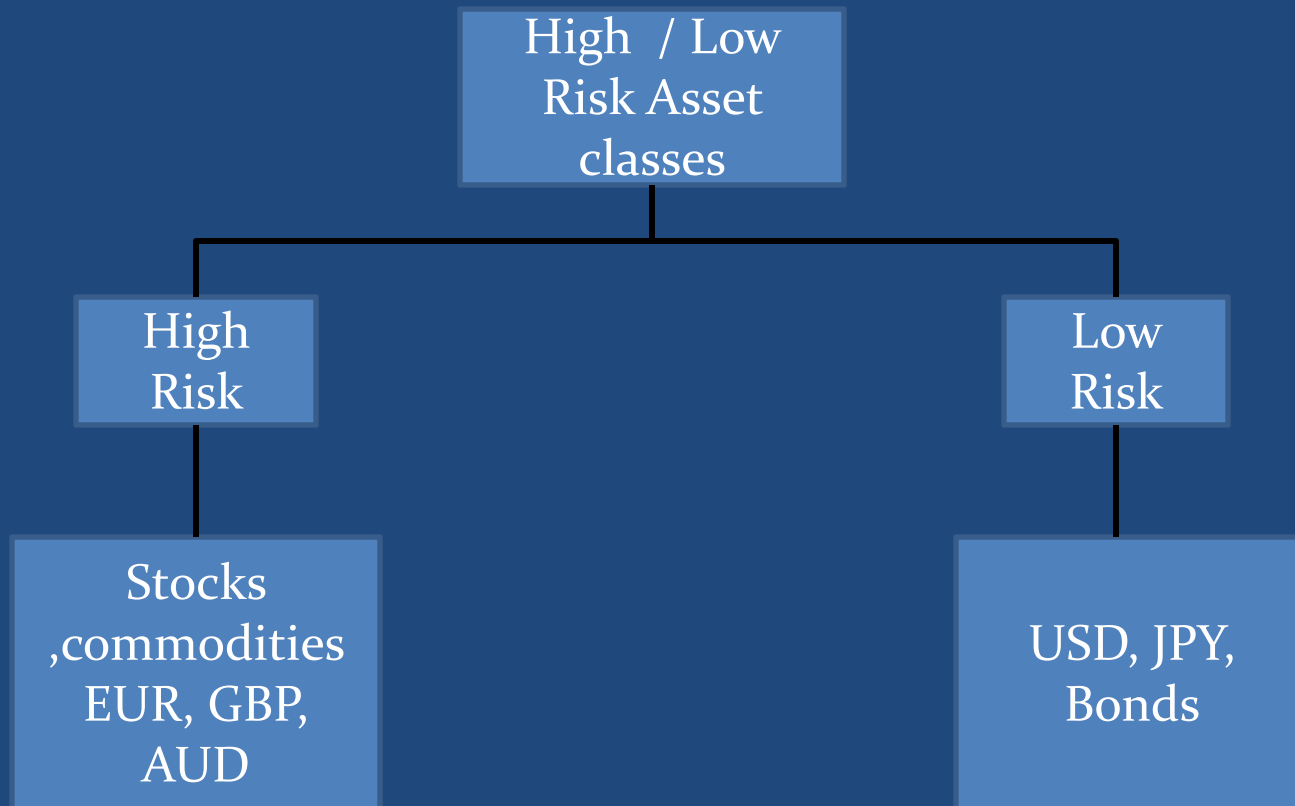
Market Dynamics



Correlations



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Correlations

Fear
&
Pessimism

Risk Aversion



Sell

Buy
safe haven & low
yielding assets eg
Bonds, USD, &
JPY,



Buy

Sell riskier High
yielding assets eg
Stocks,
Commodities,
EUR,GBP, AUD

Flight To Safety



Correlations

Risk Appetite

Risk Appetite

SELL

BUY riskier High yielding assets eg Stocks, Commodities, EUR, GBP, AUD

BUY

Greed & Optimism

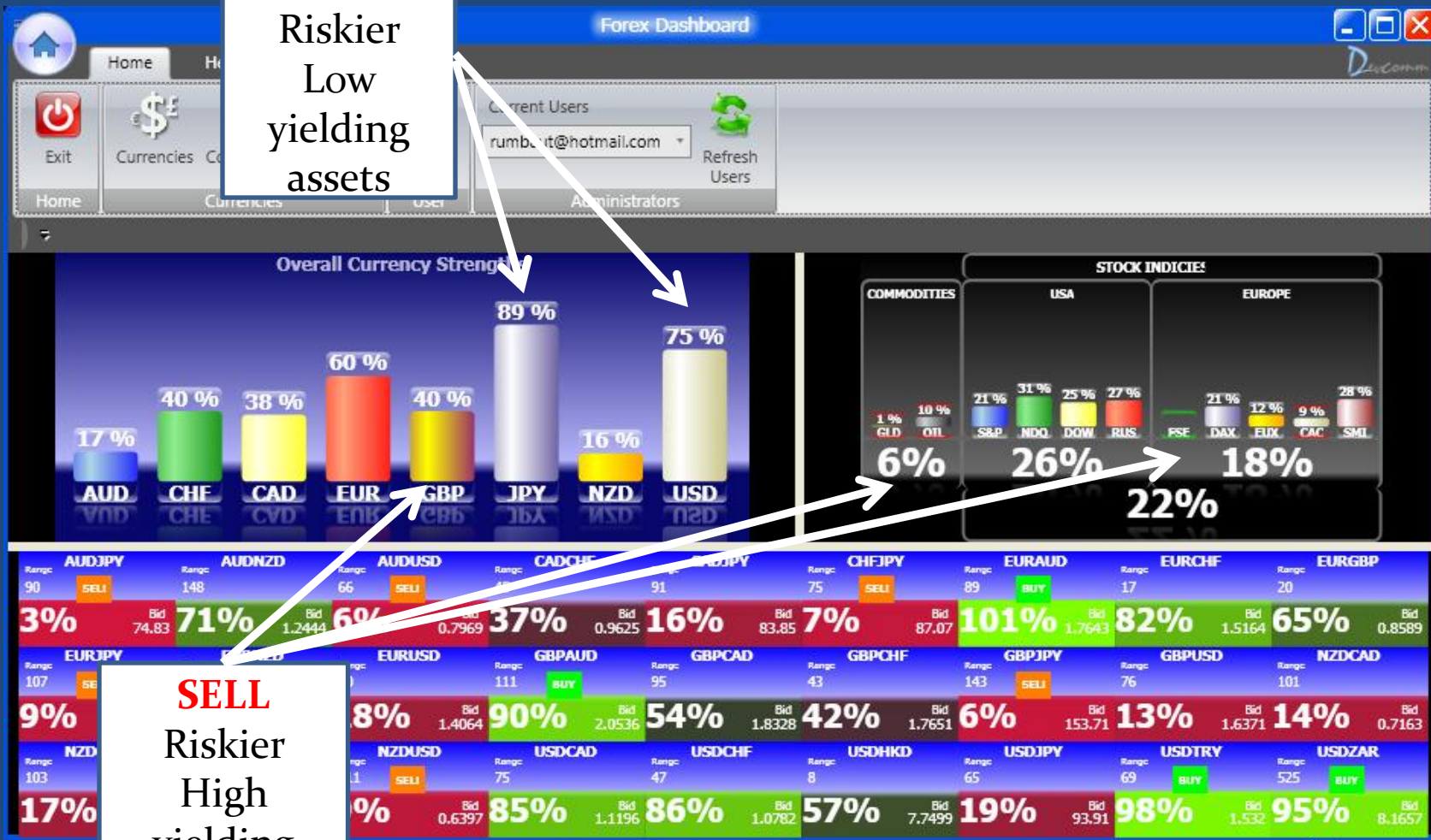
SELL safe haven & low yielding assets eg Treasuries, USD, & JPY,

Correlations

Risk Aversion

BUY
Less Riskier
Low yielding assets

SELL
Riskier
High yielding assets

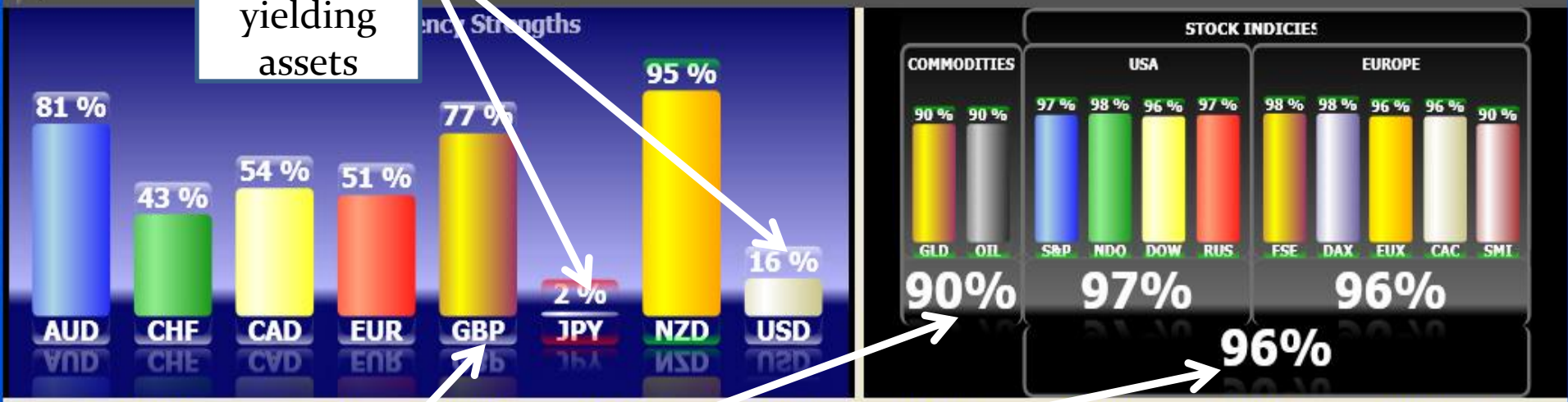


Correlations

Risk Appetite

SELL
 Less Riskier
 Low yielding assets

BUY
 Riskier
 High yielding assets



AUDJPY	Range: 144	BUY	AUDNZD	Range: 92	AUDUSD	Range: 101	BUY	CADCHF	Range: 40	CADJPY	Range: 105	BUY	CHFJPY	Range: 107	BUY	EURAUD	Range: 114	SELL	EURCHF	Range: 28	BUY	EURGBP	Range: 41	SELL	
97%	Bid: 74.84	25%	Bid: 1.2616	100%	Bid: 0.766	55%	Bid: 0.9511	99%	Bid: 84.2	97%	Bid: 88.49	7%	Bid: 1.7829	92%	Bid: 1.5085	7%	Bid: 0.8976								
EURJPY	Range: 180	BUY	EURNZD	Range: 231	EURUSD	Range: 102	BUY	GBPAUD	Range: 109	SELL	GBPCAD	Range: 117	BUY	GBPCHF	Range: 103	BUY	GBPJPY	Range: 237	BUY	GBPUSD	Range: 147	BUY	NZDCAD	Range: 79	BUY
97%	100%	Bid: 1.3665	7%	Bid: 1.986	72%	Bid: 1.7658	94%	Bid: 1.6805	98%	Bid: 148.75	100%	Bid: 1.5222	98%	Bid: 0.7038											
NZDUSD	Range: 77	BUY	100%	Bid: 0.6067	4%	Bid: 1.1603	-2%	Bid: 1.1039	33%	Bid: 7.7496	95%	Bid: 97.72	3%	Bid: 1.5573	25%	Bid: 8.4465									

Summary Of Correlations

Currency		Stocks	Commodity
EUR ,CHF (80%) +		+	+
AUD ,NZD (80%)		+	Gold (85%) +
CAD +		+	Oil (80%)+
(USD,JPY) +	(GBP, EUR, AUD) -	-	-

Summary

- ✓ All markets are correlated and have an affect on each other
- ✓ Understanding correlations will assist you in predicting future market direction
- ✓ Markets react based on the current Risk Profile
- ✓ If Risk appetite : Buy high Risk (Stocks, Commodities) & Sell Low Risk (JPY, USD & bonds)
- ✓ If Risk Averse: Sell high Risk (Stocks, Commodities) & Buy Low Risk (JPY, USD & bonds)

Correlations

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