

Trading in the Global Currency Markets

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hanced the traders's confidence in their ability to both generate profits and properly handle the exchange risks. Therefore, trading sophistication lead toward volume increase.

Developments in Telecommunications

In the 1970s and early 1980s, foreign exchange was mostly conducted via telephone, and to a much lesser extent on the telex machine. Both mediums are slow and error-prone. The introduction of automated dealing systems in the second half of the 1980s completely altered the way foreign exchange was conducted. The dealing systems are on-line computer systems which link market players on one-on-one basis. They are reliable and much faster, allowing traders to conduct four simultaneous trades, rather than one, or a maximum of two on the phone. They are also safer, as players are able to see the deals which they execute. Finally, the dealing systems have many other features which facilitate trading which will be presented in detail in Chapter 3. The dealing systems had a major role in expanding the foreign exchange business due to their reliability, speed and safety. Although it may be difficult to recall the days before the fax machines were introduced, it is only fair to mention their share into helping foreign exchange. In an industry where the speed of transfer of accurate information is paramount, faxes are currently commonplace.

Computer (Hardware and Software) Development

Computers have a significant role at many stages of conducting foreign exchange. In addition to the dealing systems, matching systems simultaneously connect all players around the world, electronically duplicating the brokers market.

The new front end-back office systems provide full accounting coverage, ticket writing, back office processing and risk management implementation at a fraction of the cost.

Unlike the limited technical analysis of the early 1980s, advanced software now makes it possible to generate all types of charts, augment them with sophisticated technical studies and put them at the traders' fingertips on a continuous basis at a rather limited cost.

Also, currency options can hardly be traded professionally without the aid of computers, because complex strategies require the help of advanced software for pricing.