American Option
An option which may be exercised at any valid business date through out the life of the option.

Arbitrage
A risk-free type of trading where the same instrument is bought and sold simultaneously in two different markets in order to cash in on the difference in these markets.

Adjustable Peg
An exchange rate system where a country's exchange rate is "pegged" (i.e. fixed) in relation to another currency. The official rate may be changed from time to time. See peg, and crawling peg.

Aggregate Risk
Total amount of exposure a bank has with a customer for both spot and forward contracts.

Ask
The price at which the currency or instrument is offered.

Association Cambiste Internationale
The international society of foreign exchange dealers consisting of national "Forex clubs" affiliated on a worldwide basis.

Around
Used in quoting forward "premium / discount". "Five-five around" would mean five points on either side of the present spot value.

At Best
An instruction given to a dealer to buy or sell at the best rate that is currently available in the market.

At Par Forward Spread
When the forward price is equivalent to the spot price.

At the Price Stop-Loss Order
A stop-loss order that must be executed at the requested level regardless of market conditions.

Average Rate Option
A contract where the exercise price is based on the difference between the strike price and the average spot rate over the contract period. Sometimes called an "Asian option".

Back office
Settlement and related processes

Balance-of-Payments
System of recording a country's economic transactions

Bar Chart
A charting method which consists of four significant points: the high and the low prices, which form the vertical bar, the opening price, which is marked with a horizontal line to the left of the bar, and the closing price, which is marked with a little horizontal line to the right of the bar.

Bank Notes
Paper issued by the central bank, redeemable as money and considered to be full legal tender.

Base Currency
The currency in which the operating results of the bank or institution are reported.

Base Price
One hundredth of a percentage point. 50 basis points [50bp] is half a percentage point.

Bear Call Spread
A spread designed to exploit falling exchange rates by purchasing a call option with a high exercise price and selling one with a low exercise price.

Bear Put Spread
A spread designed to exploit falling exchange rates by purchasing a put option with a high exercise price and selling one with a low exercise price.

Bid-Offer Spread
The difference between the buy (bid) and sell (offer) price of a currency or financial instrument.

Bilateral Grid
An exchange rate system which links all of the central rates of the EMS currencies in terms of the ECU.

Bollinger Bands
A quantitative method which combines a moving average with the instrument's volatility. The bands were designed to gauge whether the prices are high or low on relative basis. They are plotted two standard deviations above and below a simple moving average. The bands look like an expanding and contracting envelope model.

Boris
Slang for Russian trading.

Breakaway gap
A price gap which occurs in the beginning of a new trend, many times at the end of a long consolidation period. It may also appear after the completion of major chart formations.

Break-Even Point
The price of a financial instrument at which the option buyer recovers the premium.

Bretton Woods
The site of the conference which in 1944 led to the establishment of the post war foreign exchange system that remained intact until the early 1970s. The conference resulted in the formation of the IMF. The system fixed currencies in a fixed exchange rate system with 1% fluctuations of the currency to gold or the dollar.

Broken Dates
Deals that are undertaken for value dates that are not standard periods e.g. 1 month. The standard periods are 1 week, 2 weeks, 1,2,3,6, and 12 months. Terms also used are odd dates, or cock dates, broken period or broken period.

Broker
An agent, who executes orders to buy and sell currencies and related instruments either for a commission or on a spread. Brokers are agents working on commission and not principals or agents acting on their own account. In the foreign exchange market brokers tend to act as intermediaries between banks bringing buyers and sellers together for a commission paid by the initiator or by both parties. There are four or five major global brokers operating through subsidiaries affiliates and partners in many countries.

Buying Rate
Rate at which a bank is prepared to buy foreign exchange. Also known as the Bid Rate.

Buying Selling FX
Buying and selling in the foreign exchange market always happens in the currency which is quoted first. "Buy dollar/mark" means buy the dollar/sell the mark. Traders buy when they expect a currency's value to rise and sell when they expect a currency to fall.

Cable/Sterling
A term used in the foreign exchange market for the US Dollar/British Pound rate.

Call
(1) An option that gives the holder the right to buy the underlying instrument at a specified price during a fixed period.
(2) A period of trading.
(3) The right of an bond issuer to pre-pay debt and demand the surrender of its bonds.

Calendar Spread
An option position comprised of purchase and sale of two option contracts of the same type with different expiration dates at the same exercise price.

Calendar Combination
A compound option strategy which consists of simultaneous buying of a longer-term straddle and near term straddle with a common strike price.

Candlestick Chart
A type of chart which consist of four major prices: high, low, open, close. The body (jittai) of the candlestick bar is formed by the opening and closing prices. To indicate that the opening was lower than the closing, the body of the bar is left blank. If the currency closes below its opening , the body is filled. The rest of the range is marked by two "shadows": the upper shadow (uwakage) and the lower shadow (shitakage).

Capital Account
Juxtaposition of the long and short term capital imports and exports of a country.

Carry
The interest cost of financing securities or other financial instruments held.

Carry-Over Charge
A finance charge associated with the storing of commodities (or foreign exchange contracts) from one delivery date to another.

Cash Settlement
A procedure for settling futures contract where the cash difference between the future and the market price is paid instead of physical delivery.

Central Bank
A central bank provides financial and banking services for a country's government and commercial banks. It implements the government's monetary policy, as well, by changing interest rates.

Central Rate
Exchange rates against the ECU adopted for each currency within the EMS. Currencies have limited movement from the central rate according to the relevant band.

CHIPS
(Clearinghouse House Interbank Payment System) A computerised system used for foreign exchange dollar settlements.

CHAPS
Clearing House Automated Payment System.

Chartist
An individual who studies graphs and charts of historic data to find trends and predict trend reversals which include the observance of certain patterns and characteristics of the charts to derive resistance levels, head and shoulders patterns, and double bottom or double top patterns which are thought to indicate trend reversals.

Closed position
A transaction which leaves the trade with a zero net commitment to the market with respect to a particular currency.

Closing purchase transaction
The purchase of an option identical to one already sold to liquidate a position.

Correlation
A statistical measure referring to the relationship between two or more variables (events, occurrences etc.). A correlation between two variables suggests some causal relationship between these variables. Typically the Swiss Franc is closely correlated with the German Mark.

Cost of Carry
The interest rate parity, where the forward price is determined by the cost of borrowing money in order to hold the position.

Covered Interest Rate Arbitrage
An arbitrage approach which consists of borrowing currency A, exchanging it for currency B, investing currency B for the duration of the loan, and, after taking off the forward cover on maturity, showing a profit on the entire set of deals.

Cross-Rate
The exchange rate between two currencies, e.g., Yen /French franc.

Currency
The type of money that a country uses. It can be traded for other currencies on the foreign exchange market, so each currency has a value relative to another. If one US dollar can buy 1.55 Deutschmarks, then one Deutschmark can buy 0.65 US dollars.

Day Trader
Speculators who take positions in commodities which are then liquidated prior to the close of the same trading day.

Deal Ticket/Deal Slip
The primary method of recording the basic information relating to a transaction.

Dealer
An individual or firm acting as a principal, rather than as an agent, in the purchase and/or sale of securities. Dealers trade for their own account and risk.

Dealing Systems
On-line computers which link the contributing banks around the world on a one-on-one basis

Declaration Date
The latest day or time by which the buyer of an option must indicate to the seller his intention to the option.

Default
The latest day or time by which the buyer of an option must indicate to the seller his intention to the option.

Delivery Date
The date of maturity of the contract, when the exchange of the currencies is made. This date is more commonly known as the value date in the FX or Money markets.

Delivery Month
The calendar month in which a futures contract comes to maturity and becomes deliverable.

Delivery Points
Those locations designated by futures exchanges at which the currency represented by a futures contract may be delivered in fulfilment of the contract.

Delivery Risk
A term to describe when a counterparty will not be able to complete his side of the deal, although willing to do so.

Delivery
The settlement of a futures contract by receipt or tender of a financial instrument or currency.

Devaluation
Deliberate downward adjustment of a currency against its fixed parities or bands, normally by formal announcement.

Delta
The change in the value of the option premium made fully paid by the capitalisation of reserves and given relative to the instantaneous change in the value of the; underlying instrument, expressed as a coefficient.

Direct Quotation
Quoting in fixed units of foreign currency against variable amounts of the domestic currency.

Discount Rate
The interest rate at which eligible depository institutions may borrow funds directly from the Federal Reserve Banks. This rate is controlled by the Federal Reserve and is not subject to trading.

Discount
Forward rate is lower than spot rate (2) an option that is trading for less than its intrinsic value.

Double
An option either to buy or sell an instrument or currency at a specified price. The exercise of the right to sell causes the right to buy to expire and vice versa.

Durable Goods Order
An economic indicator which measures the changes in sales of products with a life span in excess of three years.

Economic Exposure
Reflects the impact of foreign exchange changes on the future competitive position of a company.

Elliot Wave Principle
A system of empirically derived rules for interpreting action in the markets. It refers to a five-wave/three-wave pattern which forms one complete bull market /bear market cycle of eight waves.

Economic and Monetary Union (EMU)
The irrevocable fixing of exchange rates between member currencies and their replacement by a single European currency, the euro. The euro is to be issued by a future European central bank, to be independent of political control and federal in nature. All countries which fulfil the five convergence criteria in 1998 will proceed to EMU in 2000. The UK and Denmark have secured opt-outs from EMU. Sweden's joining is subject to ratification by parliament.

European Currency Unit
A basket of the member currencies. As a composite unit, the ECU consists of all the European Community currencies, which are individually weighted. It was created by the European Monetary System with the eventual goal of replacing the individual European member currencies.

European Monetary System
A system designed to stabilise if not eliminate exchange risk between member states of the EMS as part of the economic convergence policy of the EU. It permits currencies to move in a measured fashion (divergence indicator) within agreed bands (the parity grid) with respect to the ECU and consequently with each other. Italy and the UK are currently not part of the system. Only Germany and the Benelux are within the current narrow band.

Exercise Notice
A formal notification that the holder of an option wishes to exercise it by buying or selling the underlying stock at the exercise price.

Exercise Price (Strike Price)
The price at which an option may be exercised.

Expiry Date
The last day on which the holder of an option can exercise his right to buy or sell the underlying security.

Exposure
The total amount of money loaned to a borrower or country. Banks set rules to prevent overexposure to any single borrower. In trading operations, it is the potential for running a profit or loss from fluctuations in market prices.

Factory Orders
An economic indicator which refers to the total orders of durable and nondurable goods. The nondurable goods orders consist of food , clothing , light industrial products and products designed for the maintenance of the durable goods.

FASB #8 (Financial Accounting Standards Board's Statement Number 8)
The original accounting rules regarding foreign exchange were standardized in 1975, which set the procedures for foreign currency translations into US Dollars in the consolidated balance sheets of US multinational corporations.

Fedwire
An automated communications and settlement system linking the Federal Reserve banks with other banks and with depository institutions.

Fill or Kill
An order which must be entered for trading, normally in a pit three times, if not filled is immediately cancelled.

Finex
A currency market part of the New York Cotton Exchange (NYCE), the oldest futures exchange in New York. The exchange lists futures on the European Currency Unit and the USDX a basket of 10 currencies.

Foreign Exchange Centers
London is the largest centre of foreign exchange trading. New York, Tokyo, Singapore, Zurich and Hong Kong are also important.

Foreign Exchange Market
Market where currencies are traded internationally. About a trillion (million million) dollars-worth of foreign exchange is traded globally every day, making forex larger than all bond markets put together. Currency markets exist in the form of spot, forward, futures and options markets. Foreign exchange transactions are made up of: Trade flows Only 5% to 10% of total forex transactions. Imports usually need to be paid for in the currency of the country from which they originate. Exports are usually paid for in one's own currency. A trade deficit therefore causes a currency to depreciate. Flow-ons Created when a large trade is split up into several smaller trades. Capital flows Cross-border investment. Speculation Short-term investment based on expected currency movements. This accounts for the lion's share of forex market volume.

Forward Forward
A forward / forward deal is one where both legs of the deal have value dates greater than the current spot value date.

Forward Outright
Foreign exchange deal which matures on any day past the spot delivery date.

Forward Rate

Forward rates are quoted in terms of forward points , which represents the difference between the forward and spot rates. In order to obtain the forward rate from the actual exchange rate the forward points are either added or subtracted from the exchange rate. The decision to subtract or add points is determined by the differential between the deposit rates for both currencies concerned in the transaction. The base currency with the higher interest rate is said to be at a discount to the lower interest rate quoted currency in the forward market. Therefore the forward points are subtracted from the spot rate. Similarly, the lower interest rate base currency is said to be at a premium, and the forward points are added to the spot rate to obtain the forward rate.

Forward Spread (forward points or forward pips)

Forward price used to adjust a spot price to calculate a forward price. It is based on the current spot exchange rate, interest rate differential and the number of days to delivery.

Futures

Exchange-traded contracts. They are firm agreements to deliver (or take delivery of) a standardized amount of something on a certain date at a predetermined price. Futures exist in currencies, money market deposits, bonds, shares and commodities. The Chicago Board of Trade's Treasury bond future is the world's most actively-traded derivative contract. The Chicago Mercantile Exchange's Eurodollar contract has the world's largest open interest.

G7

The seven leading industrial countries: The United States, Germany, Japan, France, United Kingdom, Canada, and Italy.

Gap

The price Gap between consecutive trading ranges (i.e. the low of the current range is higher than the high of the previous range)

Globex

A system for global after hours electronic trading in futures and options developed by Reuters for CME and CBOT for use in conjunction with various exchanges around the world.

Gold Standard

The original system for supporting the value of currency issued. The way that where the price of gold is fixed against the currency it means that the increased supply of gold does not lower the price of gold but causes prices to increase.

Gold Tranche

Part of the country quota for IMF members that had to be paid in gold. This was normally 25% of the quota, the remainder being in domestic currency. The Gold Tranche was automatically available to members without condition.

Golden Cross

An intersection of two consecutive moving averages which move in the same direction and suggest that the currency will move in the same direction.

Good Until Cancelled
An instruction to a broker that unlike normal practice the order does not expire at the end of the trading day, although normally terminates at the end of the trading month.

Gross Settlement
A process where full payment of each transaction is made rather than clearing a group of transactions as currently occurs in the FX market. A method designed to eliminate capital risk.

Gross Domestic Product
Total value of a country's output, income or expenditure produced within the country's physical borders.

Gross National Product
Gross domestic product plus " factor income from abroad" - income earned from investment or work abroad.

Hard Currency
A currency whose value is expected to remain stable or increase in terms of other currencies.

Head and Shoulders
A pattern in price trends which chartist consider indicates a price trend reversal. The price has risen for some time, at the peak of the left shoulder, profit taking has caused the price to drop or level. The price then rises steeply again to the head before more profit taking causes the the price to drop to around the same level as the shoulder. A further modest rise or level will indicate a that a further major fall is imminent. The breach of the neckline is the indication to sell.

Hedging
A strategy used to offset market risk, whereby one position protects another.

Hedge Ratio
The number of futures or options required to hedge a given exposure in the cash market.

ICCH
International Commodities Clearing House Limited, a clearing house based in London operating world wide for many futures markets.

IFEMA
International Foreign Exchange Master Agreement

IMF
International Monetary Fund, established in 1946 to provide international liquidity on a short and medium term and encourage liberalization of exchange rates. The IMF supports countries with balance of payments problems with the provision of loans.

IMM
International Monetary Market part of the Chicago Mercantile Exchange that lists a number of currency and financial futures.

Implied Volatility
A measurement of the market's expected price range of the underlying currency futures based on the traded option premiums.

Implied Volatility Skews
The implied volatility varies for different strikes of an option.

Implied Rates
The interest rate determined by calculating the difference between spot and forward rates.

In-the-Money
A call option is in-the-money if the price of the underlying instrument is higher than the exercise/strike price. A put option is in-the-money if the price of the underlying instrument is below the exercise/strike price.

Inconvertible Currency
Currency which cannot be exchanged for other currencies, either because this is forbidden by the foreign exchange regulations.

Index Linking
The process of linking wages, social benefits payments, prices, interest rates or loan values to an economic index, usually of prices.

Indicative Quote
A market-maker's price which is not firm.

Industrial Production Index
A coincident indicator measuring physical output of manufacturing, mining and utilities.

Inflation
Continued rise in the general price level in conjunction with a related drop in purchasing power. Sometimes referred to as an excessive movement in such price levels.

Initial Margin
The margin is a returnable deposit required to be lodged by buyers and sellers with the clearing house to secure a new futures or options position.

Instruction
The specification of the banks at which funds shall be paid upon settlement.

Inter-bank Rates
The bid and offer rates at which international banks place deposits with each other. The basis of the Interbank market.

Inter-dealer Broker
A specialist broker who acts as an intermediary between market-makers who wish to buy or sell securities to improve their book positions, without revealing their identities to other market-makers.

Interest Arbitrage
Switching into another currency by buying spot and selling forward, and investing proceeds in order to obtain a higher interest yield. Interest arbitrage can be inward, i.e. from foreign currency into the local one or outward, i.e. from the local currency to the foreign one. Sometimes better results can be obtained by not selling the forward interest amount. In that case some treat it as no longer being a complete arbitrage, as if the exchange rate moved against the arbitrageur, the profit on the transaction may create a loss.

Interest Parity
One currency is in interest parity with another when the difference in the interest rates is equalised by the forward exchange margins. For instance, if the operative interest rate in Japan is 3% and in the UK 6%, a forward premium of 3% for the Japanese Yen against sterling would bring about interest parity.

Interest Rate Options
An agreement permitting a party to obtain a particular interest rate, issued both OTC and by exchanges.

Interest Rate Cap
An agreement that provides the buyer of a cap with a maximum interest rate for future borrowing requirements.

Interest Rate Collar
A combination of a cap and a floor to provide maximum and minimum interest rates for borrowing or lending.

Interest Rate Floor
An agreement which provides the buyer of the floor with a minimum interest rate for future lending requirements.

Interest Rate Swaps
An agreement to swap interest rate exposures from floating to fixed or vice versa. There is no swap of the principal. It is the interest cash flows be they payments or receipts that are exchanged.

Intervention
Action by a central bank to effect the value of its currency by entering the market. Concerted intervention refers to action by a number of central banks to control exchange rates.

Intra-Day limit
Limit set by bank management on the size of each dealer's Intra Day Position.

Intra-Day Position
Open positions run by a dealer within the day. Usually squared by the close.

Intrinsic Value
The amount by which an option is in-the-money. The intrinsic value is the difference between the exercise/strike price and the price of the underlying security.

Inverted Market
Where short term instruments are trading at premiums to long term instruments.

IOM
Index and Options Market part of the Chicago Mercantile Exchange.

J Curve
A term describing the expected effect of a devaluation on a country's trade balance. It is anticipated that import bills rise before export orders and receipts increase.

Jawbone
Announcements and statements by politicians or monetary authorities to influence decisions by business, consumer, or trade union sectors, often associated with forecasts and policy implications.

Jurisdiction Risk
(1) The risk inherent in placing funds in the Centre where they will be under the jurisdiction of a foreign legal authority. (2) The risk in making a loan subject to the laws of another country.

Kappa
A measure of the sensitivity of the price of an option to a change in its implied volatility.

Key currency
Small countries, which are highly dependent on exports, orientates their currencies to their major trading partners, the constituents of a currency basket.

Kiwi
Slang for the New Zealand dollar.

Knock In
A process where a barrier option (European) becomes active as the underlying spot price is in the money. Knock out has a corresponding meaning although the option may permanently cease to exist.

Ladder
Dealers analysis of the forward book or deposit book showing every existing deal by maturity date, and the net position at each future date arising.

Lagging Indicator
A measure of economic activity which tends to change after change has occurred in the overall economy e.g. CPI.

Lapsed Rights
Rights for which call payments have not been made by he acceptance date.

Last Trading Day
The day on which trading ceases for an expiring contract.

Lay Off
To carry out a transaction in the market to offset a previous transaction and return to a square position.

Leading Indicators
Statistic that are considered to precede changes in economic growth rates and total business activity, e.g. factory orders.

Leads and Lags
The effect on foreign trade payments of an anticipated move in the exchange rate, normally a devaluation. Then payment of imports is faster and export receipts is slowed down.

Left-hand Side
Taking the left hand side of a two way quote i.e. selling the quoted currency. See Right-hand Side.

Leverage
In options terminology, this expresses the disproportionately large change in the premium in terms of the relative price movement of the underlying instrument.

Liability
In terms of foreign exchange , the obligation to deliver to a counterparty an amount of currency either in respect of a balance sheet holding at a specified future date or in respect of an un-matured forward or spot transaction.

LIBOR
The London Interbank Offered Rate, the rate charged by one bank to another for lending money.

Life of Contract
The period between the beginning of trading in a particular future and the expiration of trading.

LIFFE
London International Financial Futures Exchange

Limit Down
The maximum price decline from the previous trading day's settlement price permitted in one trading session.

Limit Move
A price that has advanced or declined the permissible limit permitted during one trading session.

Limit Order
An order to buy or sell a specified amount of a security at a specified price or better.

Limit Up
The maximum price advance from the previous trading day's settlement price permitted in one trading session.

Limit
(1) The maximum price fluctuation permitted by an exchange from the previous session's settlement price for a given contract. (2) In international banking the limit a bank is willing to lend in a country. (3) The amount that one bank is prepared to trade with another. (4) The amount that a dealer is permitted to trade in a given currency.

Limited Convertibility
When residents of a country are prohibited from buying other currencies even though non-residents may be completely free to buy or sell the national currency.

Lines
An arrangement by which a bank agrees to lend to the line holder during some specified period any amount up to the full amount of the line.

Liquidation
Any transaction that offsets or closes out a previously established position.

Liquidity
The ability of a market to accept large transactions.

Local
A futures trader who normally trades on an exchange on his/her own account.

Locked Market
A market is locked when the bid price equals the asked price.

Long Dated Shorts
A forward purchase and sale with a brief uncovered position between them. This may also be referred to as long short dates.

Long
The holding of an excess of a particular currency .

Long Hedge
The purchase of futures contracts for price protection purposes, as a defensive position against an increase in cash prices, or falling interest rates.

M1
Cash in circulation plus demand deposits at commercial banks. There are variations between the precise definitions used by national financial authorities.

M2
Includes demand deposits time deposits and money market mutual funds excluding large CDs.

M3
In the UK it is M1 plus public and private sector time deposits and sight deposits held by the public sector.

M4
In the US it is M2 plus negotiable CDs.

Maintenance Margin
The minimum margin which an investor must keep on deposit in a margin account at all times in respect of each open contract.

Make a Market
A dealer is said to make a market when he or she quotes bid and offer prices at which he or she stands ready to buy and sell.

Managed Float
When the monetary authorities intervene regularly in the market to stabilise the rates or to aim the exchange rate in a required direction.

Margin
(1)Difference between the buying and selling rates, also used to indicate the discount or premium between spot or forward.
(2)For options the sum required as collateral from the writer of an option.
(3)For futures a deposit made to the clearing house on establishing a futures position account.
(4) The percentage reserve required by the US Federal Reserve to make an initial credit transaction.

Margin Call
A demand for additional funds to be deposited in a margin account to meet margin requirements because of adverse future price movements.

Marginal Risk
The risk that a customer goes bankrupt after entering into a forward contract. In such an event the issuer must close the commitment running the risk of having to pay the marginal movement on the contract.

Mark to Market
The daily adjustment of an account to reflect accrued profits and losses often required to calculate variations of margins.

Markup
Premium.

Market Amount
The minimum amount conventionally dealt for between banks.

Market Maker
A market maker is a person or firm authorised to create and maintain a market in an instrument.

Market Order
An order to buy or sell a financial instrument immediately at the best possible price.

Marshall - Lerner
A model that states that if the sum of the elasticity's of demand for a country's and that of the imports exceed one, then devaluation will have a positive effect upon the trade balance.

Marry
Where a dealer is able to match two customer deals which off set one another.

Matched Book
If the distribution of the maturities of a banks liabilities equal that of its assets , it is said to be running a matchedbook.

Matching
The process of ensuring that purchases and sales in each currency and deposits given and taken in each currency are in balance, by amount and maturity.

Matching Systems
Electronic Systems duplicating the traditional brokers market. A price shown by a bank is available to all trades.

Maturity Date
(1) The last trading day of a futures contract.
(2) Date on which a bond matures, at which time the face value will be returned to the purchaser. Sometimes the maturity date is not one specified date but a range of dates during which the bond may be repaid.

Mid-price or Middle Rate
The price half-way between the two prices, or the average of both buying and selling prices offered by the market makers.

Minimum Price Fluctuation
The smallest increment of market price movement possible in a given futures contract.

Minimum Reserve
Reserves required to be deposited at central banks by commercial banks and other financial institutions. Sometimes referred to as Registered Reserves.

Mismatch
(1) A mismatch between the interest rate maturities of a banks assets and liabilities.
(2) Forward purchases differ in the value date from the forward sales in a given currency.

MITI
Japanese ministry of International Trade & Industry.

MM
Money Markets

Monetarism
A school of economics which believes that strict control of money supply is the principal tool for implementing monetary policy, especially against inflation. Policies include cuts in public spending and high interest rates.

Monetary Base
Currency in circulation plus banks' required and excess deposits at the central bank.

Monetary Easing
A modest loosening of monetary constraint by changing interest rate, money supply, deposit ratios.

Monetary Policy
A central bank's management of a country's money supply. Economic theory underlying monetary policy suggests that controlling the growth of the amount of money in the economy is the key to controlling prices and therefore inflation. However, central banks' monetary capability is severely limited by global money movements. This forces them to use the indirect tool of exchange rate manipulation.

Monetary Union
An agreement between countries to maintain a fixed exchange rate between their currencies. A process which the EMS is intended to lead to, especially after the Maastricht Treaty.

Money Market
A market consisting of financial institutions and dealers in money or credit who wish to either borrow or lend.

Money Market Operations
Comprises the acceptance and re-lending of deposits on the money market.

Money Supply
The amount of money in the economy, which can be measured in a number of ways. See definitions of M0-M4.

Most Favored Nation (MFN)
An undertaking to give the rate of tariff concession offered to members of the GATT. More concessionaire rates can exist.

Moving Average
A way of smoothing a set of data, widely used in price time series.

Naked Intervention
A central bank type of intervention in the foreign exchange market which consist solely of the foreign exchange activity. This type of intervention has a monetary effect on the money supply and a long term effect on foreign exchange.

Narrow Money
Limited definition of money to include cash or near cash, i.e. M1 or M0.

Nearby Contracts
The closest active futures contracts, i.e. those that expire the soonest.

Negative Sloping Yield Curve
A yield curve where interest rates in the shorter dates are above those in the longer dates.

Netting
A process which enables institutions to settle only the net positions with one another at the end of the day, in a single transaction, not trade by trade.

Net Position
The number of futures contracts bought or sold which have not yet been offset by opposite transactions.

Next Best Price Stop-loss Order
A stop-loss order which must be executed after the request level was reached.

Nominal Quotation
Used in Futures markets to refer to the estimated price for a future month or date for which there is no bid, ask or trade price.

Nominee Name
Name in which a security is registered and held in trust on behalf of the beneficial owner.

Nostro Account
A foreign currency current account maintained with another bank. The account is used to receive and pay currency assets and liabilities denominated in the currency of the country in which the bank is resident.

Note
A financial instrument consisting of a promise to pay rather than an order to pay or a certificate of indebtedness.

Notice Day
Any day on which notices of intent to deliver on futures contracts may be issued.

Odd Lot
A non standard amount for a transaction.

OECD
Organisation of Economic Co-operation and Development. Membership is the more than developed countries.

Offer
The price at which a seller is willing to sell. The best offer is the lowest such price available.

Offered Market
Temporary situation where offers exceed bid.

Offered Market
Temporary situation where offers exceed bid.

Offset
The closing-out or liquidation of a futures position.

Official Settlements Account
A U.S. balance of payments measure based on movement of dollars in foreign official holdings and US reserves. Also referred to as reserve transaction account.

Old Lady
Old lady of Threadneedle Street, a term for the Bank of England.

Omnibus Account
An account maintained by one broker with another in which all of the accounts of the former are combined and carried only in its name, rather than designated separately.

Open Interest
The total number of outstanding option or futures contracts that have not been closed out by offset or fulfilled by delivery.

Open Outcry
A public auction method of trading conducted by calling out bids and offers across a trading ring or pit and having them accepted.

Open Market Operations
Central Bank operations in the markets to influence exchange and interest rates.

Open position
The difference between assets and liabilities in a particular currency. This may be measured on a per currency basis or the position of all currencies when calculated in base currency.

Option
A contract conferring the right but not the obligation to buy (call) or to sell (put) a specified amount of an instrument at a specified price within a predetermined time period.

Option Class
All options of the same type - calls or puts -listed on the same underlying instrument.

Option Series
All options of the same class having the same exercise/strike price and expiration date.

Original Margin
See Initial Margin.

OTC
A market conducted directly between dealers and principals via a telephone and computer network rather than a regulated exchange trading floor. These markets have not been very popular. They were never part of the Stock Exchange since they were seen as "unofficial". Each OTC firm operates a market in the shares of a restricted list of (generally small and little-known) companies. Sometimes the dealer simply puts would-be buyers and sellers together but does not take a position in the shares himself. These days OTC trading is seen as "consumer-friendly," meaning that it is interested in getting the buyer and seller the best possible price. Some see this as what share-trading is all about. However, market makers, many of whom create market movements purposefully, feel they are being elbowed out by OTC, and that speculation, arbitrage and "smart-trading" are undermined by the new market.

Out-of-the-Money
A put option is out-of-the-money if the exercise/strike price is below the price of the underlying instrument. A call option is out-of-the money if the exercise/strike price is higher than the price of the underlying instrument.

Outright Deal
A forward deal that is not part of a swap operation.

Overhang
A holding of foreign exchange that is temporarily unable to be converted from the reserve currency into other reserve assets.

Overheated (Economy)
Is an economy where high-growth rates placing pressure on production capacity resulting in increased inflationary pressures and higher interest rates.

Overnight Limit
Net long or short position in one or more currencies that a dealer can carry over into the next dealing day. Passing the book to other bank dealing rooms in the next trading time zone reduces the need for dealers to maintain these unmonitored exposures.

Overnight
A deal from today until the next business day.

Over the Counter
See OTC.

Oscillators
Quantitative methods designed to provide signals regarding the overbought and oversold conditions.

Package deal
When a number of exchange and /or deposit orders have to be fulfilled simultaneously.

Par
(1) The nominal value of a security or instrument.
(2) The official value of a currency.

Paris
A term for USD FRF Spot Rate.

Parity
(1) Foreign exchange dealer's slang for your price is the correct market price.
(2) Official rates in terms of SDR or other pegging currency.

Parities
The value of one currency in terms of another.

Parity Grid
A term used in the context of the European Monetary System which consists of the upper, central and lower intervention points between member currencies.

Pegged
The date on which a dividend or bond interest payment is scheduled to be paid.

Payment Date
A system where a currency moves in line with another currency, some pegs are strict while others have bands of movement.

Petrodollars
Foreign exchange reserves of oil producing nations arising from oil sales.

Philadelphia Stock Exchange (PHLX)
The oldest U.S. securities exchange which offers currency futures and options on currency futures.

Pip
See point.

Point
(1) 100th part of a per cent, normally 10,000 of any spot rate. Movement of exchange rates are usually in terms of points.
(2) One percent on an interest rate e.g. from 8% -9%.
(3) Minimum fluctuation or smallest increment of price movement.

Portfolio Insurance
An option hedging strategy to protect long cash market positions.

Position
The netted total commitments in a given currency. A position can be either flat or square (no exposure), long, (more currency bought than sold), or short (more currency sold than bought).

Position Clerk
A clerk who assist the dealer in recording a dealers position and ensures that all deal tickets are completed and transferred to the back office or input into the books in a position keeping system.

Position Limit
The maximum position, either net long or net short, in one future or in all futures of one currency or instrument combined which may be held or controlled by one person.

Pre-Spot Dates
Quoted standard periods that fall between the transaction date and the current spot value date.

Premium
(1) The amount by which a forward rate exceeds a spot rate.
(2) The amount by which the market price of a bond exceeds its par value.
(3) Options, the price a put or call buyer must pay to a put or call seller for an option contract.
(4) The margin paid above the normal price level.

Primary Reserves
Gold related monetary reserves, being gold, SDR, etc.

Prime Rate
(1) The rate from which lending rates by banks are calculated in the US.
(2) The rate of discount of prime bank bills in the UK.

Principal
A dealer who buys or sells stock for his/her own account.

Producer Price Index
An economic indicator which gauges the average changes on prices received by domestic producers for their output at all stages of processing.

Profit Graph
A graphical representation of the profits to a given options strategy for different underlying asset prices.

Profit Taking
The unwinding of a position to realise profits.

Proxy Hedge
A term to describe when it is necessary to hedge against a currency where there is no market but it follows a major currency, the hedge is entered against the major currency.

Purchasing Power Parity
Model of exchange rate determination stating that the price of a good in one country should equal the price of the same good in another country, exchanged at the current rate. Also known as the law of one price.

Put Option
A put option confers the right but not the obligation to sell currencies, instruments or futures at the option exercise price within a predetermined time period.

Put Call Parity
The equilibrium relationship between premiums of call and put options of the same strike and expiry.

Pyramiding
The use of cash generated by positive variation margins on a futures position to increase the size of the position, each reinvestment in successively smaller increments.

Quota
(1) A limit on imports or exports.
(2) A country's subscription to the IMF.

Quote
An indicative price. The price quoted for information purposes but not to deal.

Random Walk Theory
An efficient market hypothesis, stating that prices move randomly versus their intrinsic value. Therefore, no one can forecast market activity based on the available information.

Rally
A recovery in price after a period of decline.

Range
The difference between the highest and lowest price of a future recorded during a given trading session.

Rate
(1) The price of one currency in terms of another, normally against USD
(2) Assessment of the credit worthiness of an institution.

Ratio Spread
Buying a specific quantity of options and selling a larger quantity of out of the money options.

Ratio Calendar Spread
Selling more near-term options than longer maturity options at the same strike price.

Reaction
A decline in prices following an advance.

Real
A price, interest rate or statistic that has been adjusted to eliminate the effect of inflation.

Realignment
Simultaneous and mutually co-ordinated re- and devaluation of the currencies of several countries. An activity that mostly refers to EMS activity.

Reciprocal Currency
A currency that is normally quoted as dollars per unit of currency rather than the normal quote method of units of currency per dollar. Sterling is the most common example.

Reinvestment Rate
The rate at which interest earned on a loan can be reinvested. The rate may not attract the same level of interest as the principal amount.

Report
French term for premium.

Reporting Dealer
Term for U.S. Primary Dealers.

Repo Rate
See Repurchase Agreement.

Repurchase Agreement
Agreements by a borrower where they sell securities with a commitment to repurchase them at the same rate with a specified interest rate.

Reserve Currency
A currency held by a central bank on a permanent basis as a store of international liquidity, these are normally Dollar, Euro, and sterling.

Reserves
Funds held against future contingencies., normally a combination of convertible foreign currency, gold, and SDRs. Official reserves are to ensure that a government can meet near term obligations. They are an asset in the balance of payments.

Reserve Requirement
The ratio of reserves to deposits, expressed as a fraction prescribed by national banking authorities, including the United States.

Reserve Tranche
The 25% of its quota to which a member of the IMF has unconditional access, and for which there is no obligation to repay.

Resistance Point or Level
A price recognised by technical analysts as a price which is likely to result in a rebound but if broken through is likely to result in a significant price movement.

Rescheduling
The renegotiation of the terms of existing debts. The term is usually used with reference to LDC debt. The term rescheduling is considered to be refinancing to avoid any implication of default. Major sovereign debt rescheduling for Brazil, and Mexico have been undertaken in recent years.

Retail Price Index
Measurement of the monthly change in the average level of prices at retail, normally of a defined group of goods.

Reversal
Process of changing a call into a put.

Reversal
Reversal patterns that occur at the end of the trend, signalling the trend change.

Revaluation
Increase in the exchange rate of a currency as a result of official action.

Revaluation Rate
The rate for any period or currency which is used to revalue a position or book.

Revaluation Rate
Revolving credit Upon repayment by the borrower the credit becomes automatically available.

Right-hand Side
To do a deal on the right hand side of a two way quote, normally to buy the currency and sell dollars. See Left-hand Side.

Ring
An area on a trading floor where futures or equities are traded.

Risk
The degree of uncertainty associated with an investment. The main elements that contribute to the riskiness of an investment are volatility, liquidity and leverage. All things being equal, a high degree of volatility and leverage makes an investment more risky. An illiquid market, where buyers are not always matched by sellers, also increases risk & investors can be left holding an asset that is falling in price.

Risk/Return
The relationship between the risk and return on an investment. Usually, the more risk you are prepared to take, the higher the return you can expect. Depositing your money in a bank is safe and therefore a low return is regarded as sufficient. Investing in stock market exposes you to more risk (from capital losses) and so investors will expect a higher return.

Risk Factor
The risk factor (delta) indicates the risk of an option position relative to that of the related futures contract.

Risk Management
The identification and acceptance or offsetting of the risks threatening the profitability or existence of an organisation. With respect to foreign exchange involves among others consideration of market, sovereign, country, transfer, delivery, credit, and counterparty risk.

Risk Position
An asset or liability, which is exposed to fluctuations in value through changes in exchange rates or interest rates.

Risk Premium
Additional sum payable or return to compensate a party for adopting a particular risk.

Risk Reversal
A combination of purchasing put options with the sale of call options.

Risk Reversal
The put limits downside, while the call limits the upside.

Rollover
An overnight swap, specifically the next business day against the following business day (also called Tomorrow Next, abbreviated to Tom-Next).

Rollover Credit
Medium term credit with a variable interest rate, which is governed by the currently prevailing rates on the Euromarket.

Round Trip
Buying and selling of a futures or options contract.

Running a Position
Keeping open positions in the hope of a speculative gain.

Same Day Transaction
A transaction that matures on the day the transaction takes place.

Sandwich Spread
Same as a butterfly spread.

Scalping
A strategy of buying at the bid and selling at the offer as soon as possible.

SDR
Special Drawing Right. A standard basket of five major currencies in fixed amounts as defined by the IMF.

Selling rate
Rate at which a bank is willing to sell foreign currency.

Seller/Grantor
Also known as the option writer.

Serial Expiration
Options on the same underlying futures being contract which expire in more than one month.

Series
All options of the same class which share a common strike price and expiration date.

Settlement Date
The date by which an executed order must be settled by the transference of instruments or currencies and funds between buyer and seller.

Settlement Price
The official closing price for a future set by the clearing house at the end of each trading day.

Settlement Risk
Risk associated with the non settlement of the transaction by the counter party.

Short / Short Position
A shortage of assets in a particular currency. See Short Sale.

Short Contracts
Contracts with up to six months to delivery.

Short Covering
Buying to unwind a shortage of a particular currency or asset.

Short Forward Date/Rate
The term short forward refers to period up to two months, although it is more commonly used with respect to maturities of less than one month.

Short Sale
The sale of a currency futures not owned by the seller at the time of the trade. Short sales are usually made in expectation of a decline in the price.

Short-Term Interest Rates
Normally the 90 day rate.

Sidelined
A major currency that is lightly traded due to major market interest being in another currency pair.

SIMEX
Singapore International Monetary Exchange

SITC
Standard International Trade Classification. A system for reporting trade statistics in a common manner.

SOFFEX
Swiss Options and Financial Futures Exchange, a fully automated and integrated trading and clearing system.

Soft Market
More potential sellers than buyers, which creates an environment where rapid price falls are likely.

Sovereign Immunity
Legal doctrine which means that the state cannot be sued or have its assets seized.

Sovereign Risk
(1) Risk of default on a sovereign loan
(2) Risk of appropriation of assets held in a foreign country. Split Date
See Broken Date.

Spot
(1) The most common foreign exchange transaction
(2) Spot or Spot date refers to the spot transaction value date that requires settlement within two business days, subject to value date calculation.

Spot Next
The overnight swap from the spot date to the next business day.

Spot Month
The contract month closest to delivery or settlement.

Spot Price/Rate
The price at which the currency is currently trading in the spot market.

Spot Week
A standard period of one week swap measured from the current value date of the currency spot rate.

Spread
(1)The difference between the bid and ask price of a currency.
(2) The difference between the price of two related futures contracts.
(3) For options, transactions involving two or more option series on the same underlying currency.

Square
Purchase and sales are in balance and thus the dealer has no open position.

Squawk Box
A speaker connected to a phone often used in broker trading desks.

Squeeze
Action by a central bank to reduce supply in order to increase the price of money.

Stable Market
An active market which can absorb large sale or purchases of currency without major moves.

Standard
A term referring to certain normal amounts and maturities for dealing.

Stand by Credit
An arrangement with the IMF for draw downs on a "need " basis. The term is sometimes more generally used.

Sterilisation
Central Bank activity in the domestic money market to reduce the impact on money supply of its intervention activities in the FX market.

Sterling Index
A index based on the movement of sterling against the major currency.

Sterling
British pound, otherwise known as cable.

Stocky
Market slang for Swedish Krona.

Stop Loss Order
Order given to ensure that, should a currency weaken by a certain percentage, a short position will be covered even though his involves taking a loss. Realise profit orders are less common.

Stop Out Price
U.S. term for the lowest accepted price for Treasury Bills at auction.

Straddle
The simultaneous purchase/sale of both call and put options for the same share, exercise/strike price and expiry date.

Stagflation
Recession or low growth in conjunction with high inflation rates.

Strap
A combination of two calls and one put.

Strike Price
Also called exercise price. The price at which an options holder can buy or sell the underlying instrument.

Strip
A combination of two puts and one call.

Supply Side Economics
The concept is that tax cuts will boost investment leading to an increase in the supply of goods in the economy. To be compared with demand led Keynesian economics.

Support Levels
When an exchange rate depreciates or appreciates to a level where (1) Technical analysis techniques suggest that the currency will rebound, or not go below; (2) the monetary authorities intervene to stop any further downward movement. See Resistance Point.

Swap
The simultaneous purchase and sale of the same amount of a given currency for two different dates, against the sale and purchase of another. A swap can be a swap against a forward. In essence, swapping is somewhat similar to borrowing one currency and lending another for the same period. However, any rate of return or cost of funds is expressed in the price differential between the two sides of the transaction.

Swap as a Percentage
Swaps expressed as an annualized percentage.

Swap Price
A price as a differential between two dates of the swap.

Swaption
An option to enter into a swap contract.

SWIFT
Society for World-wide Interbank Telecommunications is Belgian based company that provides the global electronic network for settlement of most foreign exchange transactions.

Swissy
Market slang for Swiss Franc.

Synthetics
Options or futures that create a position that able to be achieved directly but is generated by a combination of options and futures in the relevant market. In foreign exchange a SAFE combines two forward contracts into a single transaction where settlement only involves the difference in values.

Talking Up
Statements made normally by the central bank or government minister designed to bolster market sentiment with respect to the currency.

Technical Analysis
Is concerned with past price and volume trends and often with the help of chart analysis in a market in order to be able to make forecasts about future price developments of the commodity being traded.

Technical Correction
An adjustment to price not based on market sentiment but technical factors such as volume and charting.

Temporal Accounting
Method of determining accounting exposure which translates all balance sheet items at the current rate of exchange, not the one at the time the cost was incurred.

Tender
(1) a formal offer to supply or purchase goods or services.
(2) In the UK the term for the weekly Treasury Bill issue.

Tenor
Maturity or number of days to maturity normally on bills of exchange.

Terms of Trade
The ratio between export and import price indices.

Theory of Elasticities
A model of exchange rate determination stating that the exchange rate is simply the price of the foreign exchange which maintains the BOP in equilibrium. The degree to which the exchange rate responds to a change in price.

Threshold of Divergence
A safety feature for the EMS which creates an emergency exit for currencies which become the singular focus of various adverse forces. The threshold of divergence indicates when the specific country with the pressured currency should take additional steps other then simple central bank intervention in the foreign exchange markets.

Theta
A measure of the sensitivity of the price of an option to a change in its time to expiry.

Thin Market
A market in which trading volume is low and in which consequently bid and ask quotes are wide and the liquidity of the instrument traded is low.

Thursday/Friday Dollars
A U.S. foreign exchange technicality. If the bank leaves the funds overnight and transfers them on Friday by means of a clearing house cheque then clearance is not until Monday, the next working day. Higher interest rates for this period are thus available.

Tick
A minimum change in price, up or down.

Ticket
See Deal Slip.

Tier One
A measure of a banks financial strength used by the BIS being the shareholders' equity available to cover actual or potential irredeemable and non-cumulative preference shares. It excludes, hybrid forms of capital such as fixed term stock, goodwill, and revaluation reserves. BIS has a minimum requirement of 4 percent on risk-weighted assets.

Tight Money
A condition where there is a shortage of credit as a result of monetary policy restricting the supply of credit normally through raising interest rates.

TIFFE
Tokyo International Financial Futures Exchange.

Time Decay
The decline in the time value of an option as the expiry approaches.

Time Decay
Interest bearing deposits at a savings institution that has a specific maturity.

Time Value
That part of an option premium which reflects the length of time remaining in the option prior to expiration. The longer the time remaining until expiration, the higher the time value.

Today/Tomorrow
Simultaneous buying of a currency for delivery the following day and selling for the spot day, or vice versa. Also referred to as overnight.

Tombstone
Colloquial term for announcement in a publication that a loan or bond has been arranged.

Tomorrow Next (Tom Next)
Simultaneous buying of a currency for delivery the following day and selling for the spot day or vice versa.

Trade Date
The date on which a trade occurs.

Trade Deficit/Surplus
The difference between the value of imports and exports. Often only reported in visible trade terms.

Trade-weighted Exchange Rate
The changes in the exchange rate against a trade weighted basket including the currencies of the county's principal trading partners.

Traded Options
Transferable options with the right to buy and sell a standardised amount of a currency at a fixed price within a specified period.

Tradeable Amount
Smallest transaction size acceptable.

Trade Ticket
See deal ticket.

Transaction Date
The date on which a trade occurs.

Tranche
A portion of, specifically used for borrowings from the IMF.

Transaction
The buying or selling of securities resulting from the execution of an order.

Transaction Exposure
Potential profit and loss generated by current foreign exchange transactions.

Translation Exposure
The calculation of loss or profit resulting from the valuation of foreign assets and liabilities for balance sheet purposes, when consolidating into the base currency.

Treasury Bills
Short-term obligations of a Government issued for periods of one year or less. Treasury bills do not carry a rate of interest and are issued at a discount on the par value. Treasury bills are repaid at par on the due date. In the UK they are normally for 91 days, and are offered at weekly tenders. In the US they are auctioned.

Turnover
The total money value of currency contracts traded is calculated by multiplying size by the number of contracts traded.

Two-Tier Market
A dual exchange rate system where normally only one rate is open to market pressure, e.g. South Africa.

Two-Way Quotation
When a dealer quotes both buying and selling rates for foreign exchange transactions.

Uncovered
Another term for an open position.

Under Reference (Order)
Before finalizing a transaction all the details should be submitted for approval to the order giver, who has the right to turn down the proposal.

Under-Valuation
An exchange rate is normally considered to be undervalued when it is below its purchasing power parity.

Undo
A colloquial term for reversing a transaction, e.g., a spot sale by means of a forward purchase or if done in error a spot purchase.

Unload
Term for sale of assets or unwinding positions either to limit loss or to undermine other market participants positions.

Unmatched Book
If the average maturity of a banks liabilities is less than that of its assets, it is said to be running an unmatched book.

Unwind
Selling of assets and or instruments to square a position.

Up-Tick
A transaction executed at a price greater than the previous transaction.

USDX
Currency index which consist of the weighted average of the prices of ten foreign currencies against the U.S. Dollar: Deutsche Mark, Japanese Yen, French Franc, British Pound, Canadian Dollar, Italian Lira, Dutch Guilder, Belgian Franc, Swedish Krona, and Swiss Franc.

U.S. Quote
Exchange rate quotation on a reciprocal basis. Also known as an American Quote.

Value at Risk
The expected loss from an adverse market movement.

Value Date
For exchange contracts it is the day on which the two contracting parties exchange the currencies which are being bought or sold. For a spot transaction it is two business banking days forward in the country of the bank providing quotations which determine the spot value date. The only exception to this general rule is the spot day in the quoting centre coinciding with a banking holiday in the country(ies) of the foreign currency(ies). The value date then moves forward a day. The enquirer is the party who must make sure that his spot day coincides with the one applied by the respondent. The forward months maturity must fall on the corresponding date in the relevant calendar month If the one month date falls on a non-banking day in one of the centres then the operative date would be the next business day that is common. The adjustment of the maturity for a particular month does not effect the other maturities that will continue to fall on the original corresponding date if they meet the open day requirement. If the last spot date falls on the last business day of a month, the forward dates will match this date by also falling due on the last business day. Also referred to as maturity date.

Value Spot
Normally settlement for two working days from today.

Value Today
Transaction executed for same day settlement; sometimes also referred to as "cash transaction."

Vanilla
A simple option whose terms and conditions do not include any provisions other than exercise style, expiry and strike. To compare with exotic options which have additional terms.

Variation Margin
Profits or losses on open positions in futures and options contracts which are paid or collected daily.

Vega
Expresses the price change of an option for a one per cent change in the implied volatility.

Velocity of Money
The speed with which money circulates or turnover in the economy. It is calculated as the annual national income: average money stock in the period.

Vertical (bear or bull) Spread
The sale of an option with a high exercise price and the purchase (in the case of a bull) or the sale (in the case of a bear) of an option with a lower exercise price. Both options will have the same expiration date.

Visible Trade
Trade in merchandise goods as compared with capital flows and invisible trade.

Volatility
A measure of the amount by which an asset price is expected to fluctuate over a given period. Normally measured by the annual standard deviation of daily price changes. (historic). Can be implied from futures pricing, implied volatility.

Vostro Account
A local currency account maintained with a bank by another bank. The term is normally applied to the counterparty's account from which funds may be paid into or withdrawn, as a result of a transaction.

Whipsaw
Term for where a trader takes a position, then has to move against it, triggering stop-loss limits and liquidation of positions, then having to move in the original direction. Normally occurs in volatile markets.

Wholesale Money
Money borrowed in large amounts from banks and institutions rather than from small investors.

Wholesale Price Index
It measures changes in prices in the manufacturing and distribution sector of the economy and tends to lead the consumer price index by 60 to 90 days. The index is often quoted separately for food and industrial products.

Window-dressing
Where financial institutions or companies raise funds for specific reporting dates such as year ends to give the appearance of high liquidity.

Working Balance
Discretionary element in the monetary reserves of a central bank.

Working Day
A day on which the banks in a currency's principal financial centre are open for business. For FX transactions, a working day only occurs if the bank in both (all relevant currency centers in the case of a cross are open).

World Bank
A bank made up of members of the IMF whose aim is to assist in the development of member states by making loans where private capital is not available.

Writer
The seller of a call or put option in connection with an opening position who receives a premium and who is required to perform if it is exercised.

Yield Curve
The graph showing changes in yield on instruments depending on time to maturity. A system originally developed in the bond markets is now broadly applied to various financial futures. A positive sloping curve has lower interest rates at the shorter maturities and higher at the longer maturities. A negative sloping curve has higher interest rates at the shorter maturities.