

Hi everyone!

This small rundown is intended for educational and informative purposes for new traders mainly to see and understand how watching other markets can benefit oneself in forex trading. The magazine "economist" stated that international markets have revealed a 95% correlation with the S&P 500 this figure was set as low as 40% in the mid 1990's. We are seeing similar trends at other markets like bonds, futures, forex. This gives us an edge what might happen in the future in that particular currency based on other financial markets. Price of commodities like oil almost doubled in a year what leads CAD to increase in value since Canada is a huge exporter of oil (check USD/CAD chart). Let me break it down a little, the USA gets 90% of oil needs from Canada (which is surprising to many people) so to purchase oil in Canada we need CAD, since the price of oil is going up that would increase the demand for CAD. Ok, now let's look at another important commodity which is gold. It's been going up basically for years and some corporate people do speculate that price will hit \$1000/oz even more. Well, time will tell but there is a probability. One major country is affected by gold and that's Australia since it's a big exporter of gold. People trading AUD/USD should watch gold, it's giving us an edge. For certain extent USD is also influenced by gold and that is because the corporate world always shifts money to the possible safest investment. Mostly when gold goes up USD loses value. Many people trade JPY pairs since they provide a lot of volatility. More experienced traders are aware of carry trade "madness" and they can make high profit from it. While new traders can get easily caught by an unexpected volatile move of 100 or more pips in a very short time. There is a way to prepare oneself, to watch a volatility index (VIX) issued by CBOE. This is the index of S&P 500 stocks. Simply when the index rises it tells us that volatility or investors' fear is increasing in the stock market. Upward movement means more institutional investors buying put options hedging their bets towards the downside. They are losing confidence in the bullish stock market! It has the most effect on the Yen. In other words VIX gives us a sentiment, how big investors think of the stock market. So the S&P 500 and for that matter DOW also going down, Yen has to increase in value. I know, this is a dry subject and there will be people who will have a hard time to grasp it, but being an educated trader can make a world of difference. All markets are basically a balance of supply and demand and you can throw any pretty indicators on your chart it boils down to the same thing that indicators follow the price and not the other way around. **THE KEY TO TRADING: YOU CAN USE ANY INDICATORS YOU WANT BUT ONLY TAKE A BUY/SELL SIGNALS WHEN PRICE IS INTO DEMAND AND SUPPLY LEVELS.** Recognizing demand and supply levels is a new approach to trading. There are top brokers out there employed by Soros group, JP Morgan already using this method with huge success. This approach is not for new traders since it requires a lot of understanding of how the market works behind the scenes. I have been working on a system utilizing this method for retail traders like us. Last final thoughts, these markets are so correlated nowadays that they do affect one another, if something happens in one market the others feel the vibrations and domino effect comes into play. One more thing: don't think it only applies for position traders, scalpers can also benefit from watching the above mentioned instruments and once your entry point is established you got everything to execute a nice profitable trade. Keep those pips coming! Have a great day!