Forex Terms Cheat Sheet

The basic forex lingo every new trader needs, on one page

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Reading a Forex Quote

EUR / **USD** = **1.10850** / **1.10870**

EUR: Base currency | USD: Quote currency | 1.10850: Bid (you sell here) | 1.10870: Ask (you buy here)

Term	What it means	In this quote
Base currency	The first currency in a pair, the one you buy or sell	EUR
Quote currency	The second currency in a pair, used to price the base currency	USD
Bid	The price you can sell the base currency at	1.10850, so you sell 1 euro for 1.10850 U.S. dollars
Ask (offer)	The price you can buy the base currency at	1.10870, so you buy 1 euro for 1.10870 U.S. dollars
Spread	The ask minus the bid, a cost you pay on every trade	1.10870 – 1.10850 = 0.00020, or 2 pips

Quote convention. Forex quotes follow the format Base currency / Quote currency = Bid / Ask.

Types of Currency Pairs

Type	What it is	Examples
Major pair	The U.S. dollar paired with another major currency	EUR/USD, USD/JPY
Cross (minor)	Two major currencies without the U.S. dollar	EUR/GBP, AUD/JPY
Exotic pair	A major currency paired with an emerging market currency	USD/MXN, EUR/TRY

The eight majors. USD, EUR, JPY, GBP, CHF, CAD, AUD, and NZD.

Trading a **cross** is a bit like making two U.S. dollar trades at once. Buying EUR/GBP is like buying EUR/USD and selling GBP/USD.

Pips and Pipettes

	Most pairs	Yen pairs
1 pip	0.0001 (4th decimal)	0.01 (2nd decimal)
1 pipette	0.00001 (5th decimal)	0.001 (3rd decimal)

A pip is the standard unit for measuring how much a pair's price changes. **A pipette** is one-tenth of a pip.

GBP/USD moving from 1.3227 to 1.3228 is a 1-pip move. USD/JPY moving from 159.80 to 159.83 is a 3-pip move.

Spreads and Transaction Costs

Transaction cost (spread) = Ask – Bid

Round turn. A buy (or sell) trade and an offsetting sell (or buy) trade of the same size in the same currency pair. The spread is the cost of one round turn.

Example. AUD/USD is quoted at 0.67891/0.67903. You buy at 0.67903, so the trade starts 1.2 pips down. On one mini lot, that's a $1.20 cost.

Big figure. The first digits of a quote that dealers leave out. USD/JPY at 159.80/159.83 is said as "80/83."

Lot Sizes

Lot	Units of base currency	Pip value on EUR/USD
Standard	100,000	$10
Mini	10,000	$1
Micro	1,000	$0.10
Nano	100	$0.01

Lot size always refers to the base currency. One mini lot of USD/JPY is 10,000 U.S. dollars, while one mini lot of EUR/USD is 10,000 euros.

Margin and Leverage

Term	What it means
Margin	The money set aside from your account to open a trade
Leverage	The ratio of a trade's full size to its margin
Equity	Your balance plus or minus the profit or loss on open trades
Free margin	Equity that isn't set aside as margin, which you can use for new trades

Margin = Trade size ÷ Leverage

Example. 50:1 leverage means a 2% margin requirement. Buying one mini lot of USD/JPY (10,000 U.S. dollars) needs $10,000 ÷ 50 = **$200** of margin.

Leverage limits. Retail traders can use up to 50:1 on major pairs in the U.S. and up to 30:1 in the UK and EU.

Higher leverage lets you open bigger trades with less money, but bigger trades also lose more money per pip.