GLOBAL TRADING EBOOK

In this e-book, we will explain the basic traits of the market. From market types to different financial instruments, we give you an overview of all the characteristics of modern trading. There are many factors today that attempt to shake up the market, and we will show you the ways it copes with all those obstacles.

Trading Market 101

A trading market is a place where two or more parties can engage in an economic transaction. They can trade goods, services, information, currencies, commodities, or anything else that falls under its jurisdiction.

Types of Markets

Types of markets can be determined by many factors. Most commonly, it’s the size that matters - based on the number of buyers and sellers that engage in it. Also, the amount of money exchanged on it every year is an important indicator of the market’s strength. Other factors that determine the market are location, duration, type of products sold, and legality.

The basic distinction between the types of markets goes as following:

Black Market

A black market is an illegal market, where the trading occurs without the knowledge or regulation of the government. The transactions are typically cash-only, so they would be harder to track.

There are no rules when it comes to the black market. It can grow and develop in both developed and less developed economies.

These kinds of markets strive when there is a shortage of a certain good or service. That's when they make the biggest profit, by inflating the prices immensely.

Auction Market

An auction market is a place where several bidders are submitting their offers to buy a certain good or service. The best-known example of this market is the New York Stock Exchange.

The auction market is quite different than the over-the-counter (OTC) market for several reasons. First, there are no direct negotiations between the buyers and the sellers on the auction market. Also, the auctions usually involve one seller and multiple buyers, which is the greatest distinctive quality of these markets.

Financial Market

A financial market is a place where securities such as currencies, stocks, and bonds are traded between two parties. These markets are an essential part of every economy since they provide liquidity for businesses. They can be both virtual and physical.

There is also the stock market, which is a place where you buy and sell shares of publicly traded companies.
There is a difference between the primary and the secondary market. While the primary stock market is the place where the new stocks are first issued and offered, all the trading occurs on the secondary market.

Types of Financial Markets

The stock market is quite complex, with many different factors that affect it, as well as traders engaging in transactions every day. Based on their unique traits, there are several types of financial markets.

Over-the-Counter Markets

This a secondary market that handles all exchanges of the public stocks which are not listed on NASDAQ, NYSE or American Stock Exchange. On these markets, you can find stocks issued by smaller companies and organizations. It also has less regulation, and smaller trading fees and commissions.

Bond Markets

A bond is a type of security where an investor loans money for a certain amount of time at an interest that is established beforehand. Besides the companies, bonds can be issued by municipalities, states, and federal governments. The US bond market also sells the notes and bills issued by the US Treasury.

Money Market

This is a part of the financial market that trades maturities. The purpose of a money market is short-term borrowing and lending securities with a maturity of less than a year. It accepts certificates of deposit, banker's acceptances, certain bills, notes, and commercial paper.

Derivatives Market

This market is a place where you can trade securities that derive their value from the underlying assets they represent. The value of a contract is determined by the market price of the underlying item.
It includes forward contracts, futures, options, swaps,
and contracts-for-difference (CFDs).

Forex Market

The forex market is a place where you can exclusively trade currencies. This is the most liquid market in the world since cash is the most liquid asset. There are many essential parts that make up the forex market - banks, commercial companies, central banks, hedge funds, as well as brokers and investors.

Financial Instruments on the Trading Market

Financial instruments are assets or packages of capital that can be traded. Their biggest role is to provide efficient flow and transfer of capital across the market. These assets can be cash, evidence of ownership, or a contractual right to deliver or receive cash or any other financial instrument.

Financial instruments can be real or virtual documents that represent an agreement regarding any monetary value. If they are equity-based, they represent ownership of an asset. And if they are debt-based, they represent a loan that investor made to the owner of an asset.

Types of Financial Instruments

When it comes to the division of financial instruments, there are two ways to do that. The first group is cash and derivative instruments.

Cash Instruments

This is a term that applies to all the assets that are available directly on the market. That's why the market has the biggest influence on its value. These instruments are also easily transferable. Some examples of the cash instruments are shares, bonds, and cheques.

Derivative Instruments

As the name would suggest, the value of these instruments is derived from the value and characteristics of the asset they represent. Those can be interest rates, indexes, or more. They can be both exchange-traded or over-the-counter (OTC) derivates.

Financial instruments can also be divided by the class of the assets. If you classify them this, you will get two groups - debt-based and equity-based.

Debt-based Instruments

Debt-based instruments can be further divided into short-term and long-term debt-based instruments. When it comes to short-term ones, they last up to one year. The examples of these kinds of securities are the ones that are in the form of T-bills and commercial paper. When it comes to cash, those are deposits and certificates of deposit (CDs).

As for the long-term debt-based instruments, they last more than a year. Those are bonds, loans, bonds futures and options on bonds futures. As for OTC derivatives, the examples of the long-term instruments are interest rate swaps, caps and floors, options, as well as the exotic derivatives.

Equity-based Instruments

These financial instruments are most commonly known as stocks. When it comes to the exchange-traded derivatives, they include stock options and equity futures.
The OTC derivatives include stock options and exotic derivatives.

Factors Affecting the Market

When trading on the market, you can experience many changes and sudden turns of direction. No matter which security or an instrument you choose, you can never be fully protected from the impact of many different events on the market every day. These are the most common factors that determine your trading experience.

The Government

Government is the key regulator of the market in every country. Each step that the government decides to make has a direct impact on the financial market. The fiscal and monetary policy, as well as central banks, affect the growth of the economy, which is an important factor on the market.

One of the essential moves regarding monetary policy is the increase (or a decrease) of interest rates. On the other hand, the fiscal policy is used to help decrease unemployment or stabilize prices.
In addition, by affecting the interest rates, the government has control over the amount of investment going in and out of the country.

International Transactions

The market consists of many transactions made each day, so it's not surprising that the same process can affect it in other forms. Namely, we have in mind the transactions between the countries, which can weaken the economy in case the bigger amounts of money are leaving it.

For example, the countries that do a lot of export, need to make up for it by bringing in more money, so they can keep that balance.
This way, they stimulate their financial markets and keep them functioning and successful.

Speculation & Expectation

This is an essential part of any financial system. Despite predictions being somewhat unreliable, the market still depends on them, too. Oftentimes, the different views of consumers, investors, and politicians will affect the performance of the market.

Sentiment indicators are used to show how different groups think and feel about the current state of the economy and the market. Their analysis, along with the fundamental and technical, can greatly help the investors decide on their next move in trading.

Supply & Demand

This dynamic is key in the market. The supply and demand for products, services, currencies, and other investments affect their prices. For example, if the demand and supply start to decrease, prices will go up. Similarly, if the demand and supply increase, prices will fall.