When does a Forex day begin and end?

Does it really matter?

One question that is often asked of the Forex market is just how is a day defined in terms of the start and end of trading?

The simple answer is that from the start of the Forex week when Australasian traders sit down at their desk until the end of North American trading at the end of Friday there is no break in trading. It is a direct market which does not recognize any exchange through which all trades are recorded.

Trades can be executed at any time with one time zone overlapping the next. There is even a very limited market in the Middle East on Saturdays although any trades are made locally and not officially included in market turnover statistics.

The net effect is a working week of some 5 days plus between 2 and 4 hours depending on how enthusiastic New Zealand traders are on their Monday morning.

This may seem quite remarkable for the largest global market. To highlight just how big it is in comparison with other leading markets, the BIS reported a daily turnover in 2007 of some US$3.2 trillion. That is equivalent to:

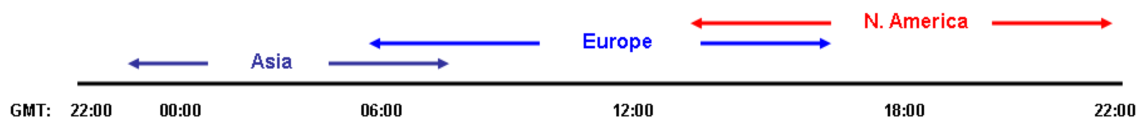
- More than 10 times the average daily turnover of global equity markets
- More than 35 times the average daily turnover of the NYSE
- Nearly $500 a day for every man, woman, and child on earth
- An annual turnover more than 10 times world GDP

In spite of this there is no official daily open and close.

This has an impact on how technical analysis charting packages display their daily data. Market practice is actually to treat the day as moving from Asian open to New York close, generally considered to be at 5pm EST (10pm GMT.) Monday's bar also has the trades prior to New York 5pm on Sunday included and thus actually represents trading over a 26-28 hour time period.

However, is this a true reflection of a trading day from a psychological point of view? Let us just look at the market participants during the trading day.

On a timeline this can be shown as:

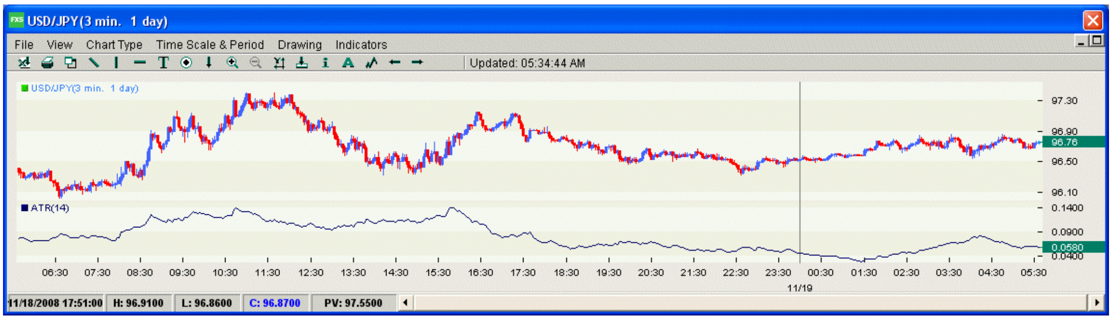


If you consider the regional presence over the trading day we can generate three distinct time zones, these being Asia, Europe and North America. According to the BIS the average percentage of daily turnover is approximately 20%, 45% and 20% respectively. The balance is attributed to "others."

There is one period of time where market liquidity drops and trades become fewer, this being between the close of New York and the opening in Tokyo. While New Zealand and Australia are generally at their desks the lack of depth in the counterparty availability reduces trades to a minimum.

Furthermore, while Asia does account for 20% of the daily turnover, normal trading conditions generate a range of only 30-40 points. Hence we can suggest that there is a proxy for a psychological break in trading.

Below is a 3 minute bar chart of Dollar-Yen with Average True Range plotted below. Since there is no volume figures available in Forex due to the fact that there is actually no means to compile trades from the variety of trading methods, Average True Range can be used as proxy for the degree of activity in the market.



The time scale is EST and it can been seen that running into 5pm ATR is already on the decline and remains subdued throughout Asian trading until approximately 2am when Europe is beginning to trade. Thus it adds weight to the practice of considering the Forex day running from 17:01 New York time through to 17:00 the next day.

However, on a chart the daily opening prices will be recorded on the first tick following 5pm in New York while the day's close will be at 5pm in New York. Considering the time lapse between the last tick on one day and the first of the next there is virtually no occasion when price will have moved more than 1 point. Invariably one day's close and the next day's open is generally the same.

This causes a very significant difference in the appearance of a chart from an exchange traded market and Forex. There are simply no close-to-open gaps in Forex charts with the only exception being over the weekends. Even then, until recent events caused big gaps following official comments over the weekend, in general there was little or no gap at weekends either.

With many analysts considering gaps as a significant reflection of market psychology it renders those techniques irrelevant in Forex. Basically gaps are a reflection of a change in trader's view of market value, normally caused by corporate announcements in equity markets or overnight official comments in other markets that require a shift in the value of the underlying asset.

This really can't be said of the Forex market since trades can be executed 24 hours a day and therefore market moving comments or economic releases generate instantaneous reactions. In truth these can cause gaps in intra-day trading but these are not reflected in charts.

Even if we suggest that we can artificially create a daily chart excluding the period between New York close and Tokyo open there will rarely be much of a gap anyway. However, in many ways it would be irrelevant and that has been shown over the past few months when Asian trading has seen much larger ranges – in some case over 400 points.

The clear point is that while a *normal* market will not see any significant gap, the fact that during abnormal market conditions it is still open, trades can be processed. It is a market that reacts to changes in perception of value instantaneously. Not only that but market participants from around the globe do have the ability to trade at any time – not just in one time zone. This is in complete contrast to exchange traded assets.

In conclusion, what this means is that more attention needs to be given to price movement, the nature and structure of moves which highlight potential projections and corrections. Forex is a real challenge for analysts.

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