EVALUATION OF THE PROFITABLITY OF TECHINICAL ANALYSIS FOR ASIAN CURRENCIES IN THE FOREX SPOT MARKET FOR SHORT-TERM TRADING

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Abstract: *Technical analysis has garnered an unprecedented amount of interest among short-term traders in the Forex spot market over the past couple of decades. The main purpose of this study is to examine the profitability of technical analysis as applied to three active Asian currencies in the Forex spot market for short-term trading. This study also tests the relationship between various related parameters of currency trading such as Maximum Drawdown, Time in Position, Dealt Lots, Trading Charges and profitability. It covers ten currency pairs, including ten foreign exchange rates of three active Asian currencies in the Forex spot market (the Japanese Yen, Singaporean dollar, and Hong Kong dollar), five time frames involving Intra-day timeframes, and ten technical indicators (5 leading and 5 lagging). The study covers a period of three months running from April 10, 2012 through July 10, 2012. The results indicate that technical analysis is profitable for Asian currencies as attested by the fact that all the currency pairs, time frames and indicators have yielded trading profits in the Forex spot market.*

Key words: *Forex spot market, Technical analysis, Short-term trading***.**

1. Introduction

Financial markets have always been appealing to investors all around the world to exploit the opportunity for making investments. Amongst the most rewarding financial markets, the foreign exchange market has had an unprecedented growth over the past two decades. According to a 2010 Bank for International Settlement (BIS) report, it has become the largest and most liquid market in the world with $4 trillion daily turnover. In October 2011, it was estimated that the turnover averaged around $4.7 trillion a day (Bech, 2012). The Foreign exchange market is referred to either as the FX, currency market or Forex. This article will refer to it as the 'Forex.'

The Forex market is a decentralized or over the counter (OTC) market. It is operated around the globe without the limitations of a central physical exchange. Any currency can be electronically traded through the Internet, five days a week, 24 hours a day (Norris et al., 2009). In short, it is a round-the-clock market. It has high leverage and involves low transaction costs. Forex market participants are involved in it for different purposes; two important and primary purposes being speculation and currency conversion (Chen, 2009; and Frieden, 2008). Participants include central banks, commercial banks, financial institutions, hedge funds, corporations, and individual traders.

The most influential participants in the Forex market involve the major commercial and investment banks, and hedge funds, whilst the least significant ones are individual retail traders (King et al., 2011; Chen, 2009).

Forex trading commenced in the floating era in the early 1970s in the wake of the collapse of the Bretton Woods Agreements and Smithsonian Agreement (Madura, 2008). Although it was infeasible for retail market to access the Forex market even after the Smithsonian collapsed, this era is regarded as the time at which the modern-day Forex trading as it exists today was born. Historically, entry to the Forex market was restricted to banks, hedge funds, large commodity trading advisors (CTAs) and institutional investors as a result of regulations, capital requirements and technology. However, growing competition and the advent of the Internet made it possible for other market participants, especially retail traders to obtain access to this market (Lien, 2004; and King et al., 2011).

Analysis of the Forex market is performed by two methods: (i) fundamental analysis and (ii) technical analysis. Both approaches are considered as effective tools in forecasting the price movement (Sweeney, 2005; Murphy, 2000).

(i) Fundamental Analysis refers to the method by which market trends and price

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