

What a currency pair actually is

CURRENCY PAIR

A currency pair is a price: how many units of one currency, the quote, one unit of the other, the base, costs right now. EUR/USD at 1.1000 means one euro costs 1.1000 US dollars. Every FX trade exchanges the two - there is no buying a currency outright, only swapping one for another at that ratio.

EUR/USD sits at 1.1000 on your screen. Before you can trade that number, you need to know what it is: the cost of one euro, paid in dollars. Everything else in FX builds on that sentence.

Why are currencies quoted in pairs?

A share has a price in money. Money itself doesn't - a pound is worth a pound, which tells you nothing. A currency only has a price relative to another currency, so the market quotes them two at a time. The pair is a ratio, and the number you see is that ratio right now.

That has a consequence people miss for years: there is no such thing as buying a currency on its own. Every FX position swaps one currency for another, so you are always long one and short the other at the same time. "The euro is strong" means nothing until you say what it is strong against.

Which currency is which?

The first currency in the pair is the base, the second is the quote, and the price is always what one unit of the base costs in the quote. GBP/USD at 1.2500: one pound costs 1.2500 dollars. USD/JPY at 125.00: one dollar costs 125.00 yen. The order is market convention, not preference - EUR/USD exists, USD/EUR is not quoted.

Direction follows from that. When the pair rises, the base costs more of the quote - the base strengthened, the quote weakened, in one move. Buying a pair means buying the base and paying with the quote; selling is the reverse. The worked example makes the ratio do some damage.

Worked example - figures in USD

You exchange \$10,000 into euros at EUR/USD 1.1000 - the euro is the base, the dollar the quote, and one euro costs 1.1000 dollars.

1. At 1.1000, \$10,000 becomes €9,090.91. The quote is the whole story: one euro costs 1.1000 dollars, and every FX price ever printed is that sentence with different names in it.
2. The pair rises to 1.1220 - the euro now costs more dollars. Your exchanged money hasn't moved, but converted back it is worth \$10,200.00: a gain of \$200.00.
3. Suppose the pair falls to 1.0780 instead. Converted back, the same money is worth \$9,800.00: a fall of \$200.00. Both directions were always live - holding a currency is a position, not a parking space.
4. That is all a currency pair is: the ratio your money crosses at. Trading a pair through a broker does the same thing with margin and a spread attached - both arrive in later lessons.

What this means for you

Every FX position is a relative bet, so name both sides before you form a view - a euro opinion is incomplete until it is a EUR/USD or EUR/GBP opinion. Notice from the worked example that the same rise helped one reader and cost another: direction only means something from a side. And if you hold any currency that is not your own, you already have an FX position, whether you chose one or not. The currency converter below lets you re-run the example with your own numbers and any rate you type.

Try it yourself with the currency-converter calculator: <https://ticksprout.com/tools/currency-converter>

Check your understanding

1. EUR/USD is quoted at 1.1000. What does that number say?

- a. One dollar costs 1.1000 euros
- b. One euro costs 1.1000 dollars
- c. Euros and dollars are 10% apart in value
- d. The central banks have set the exchange rate at 1.1000

Answer: b. The base comes first and the price is what one unit of it costs in the quote: one euro, 1.1000 dollars. The first option reads the pair backwards. "10% apart" treats a ratio as a difference. And no one sets the rate - lesson 6 covers what actually moves it.

2. You buy EUR/USD. What do you now hold?

- a. Euros, paid for with dollars - long euros, short dollars
- b. Both currencies at once, equally
- c. Dollars, paid for with euros
- d. A certificate tracking the European economy

Answer: a. Buying a pair buys the base and pays with the quote, so you are long euros and short dollars in one move. Holding both equally would cancel out. Dollars-paid-with-euros is selling the pair. And a pair is a ratio of two currencies, never a proxy for one economy.

3. GBP/USD rises from 1.2500 to 1.2750. Which sentence is right?

- a. The pound now costs more dollars
- b. The dollar now costs more pounds
- c. Both currencies strengthened
- d. The number alone cannot say anything about direction

Answer: a. The price is dollars per pound, so a higher number means each pound costs more dollars - the pound strengthened against the dollar, and equivalently the dollar weakened against the pound. Both cannot strengthen against each other. The number says exactly one thing about direction, which is the point of it.

4. Why can you never buy a currency on its own in FX?

- a. Every purchase pays with another currency, so each position is long one and short the other
- b. Regulation forbids holding a single currency
- c. Single currencies are only available to banks
- d. You can - that is what a pair is

Answer: a. Money is priced in money: acquiring one currency means giving up another, which is what makes every FX position relative. No rule forbids holding cash, and banks face the same arithmetic. The last option has the pair backwards - a pair is the exchange, not a single currency.