Where the market lives

THE FX MARKET'S STRUCTURE

Foreign exchange has no central exchange and no single official price. It is a network of dealers - banks quoting prices to each other at the core, with funds, companies and retail brokers connected in tiers around them. Every price you see is one participant's quote at one distance from that core, which is why two platforms never show quite the same number.

Ask where shares trade and there is an answer with an address - an exchange, a listed venue, a bell. Ask where EUR/USD trades and there is no building to point at. The price on your screen came from somewhere, and knowing where changes how you read everything the platform shows you.

If there's no exchange, what is there?

A network. At its core, dealing banks quote prices to each other, directly and through electronic dealing venues, in sizes measured in millions. That web of bank-to-bank dealing is the interbank market, and it is where the prices everyone else sees are formed. Nobody administers it; it is what thousands of simultaneous quotes add up to.

Everyone else connects in tiers. Large funds and corporates deal with banks directly. Retail brokers take feeds from a handful of banks and dealing firms, assemble them into one stream, and quote you. Each tier out, the quote passes through another participant who adds their margin. You trade at the edge of the network, and the worked example prices the distance.

Diagram: The market as tiers: quotes flow outward from the dealing core, orders flow inward, and the spread widens with each tier.
View it in the web lesson: https://ticksprout.com/learn/fx/market-foundations/where-the-market-lives

Worked example - figures in USD

You trade one standard lot of EUR/USD on a retail platform quoting a 0.9 pip spread. A pip on one lot is worth $10.

1. Price the crossing itself: at a spread of 0.9 pips pips on EUR/USD, your 1 lot costs $9 the moment you trade - paid whichever direction you deal, before the price moves at all.
2. A bank inside the dealing core crosses the same pair at 0.1 pips: $1. Same instrument, same moment, different room.
3. The difference is not a fee anyone hides - it is distance. Your quote passed through more hands than the bank's, and each pair of hands is paid in spread.

Why is there no single official price?

Because there are thousands of prices at once. Every dealer in the network quotes its own bid and ask, moving them independently, second by second. They stay close to each other - anyone quoting far from the pack gets picked off or ignored - but close is not identical. A share has one last-traded price on one venue; EUR/USD has as many prices as there are dealers quoting it.

What this means for you

Two platforms showing slightly different EUR/USD prices at the same second are both working correctly - each shows its own assembled quote, and neither is the official one, because official does not exist here. The spread you pay is the price of your seat's distance from the dealing core, and it is a real, recurring cost the spread tool below will total for you. Where your own broker sits in this picture, and what that means for your fills, is the next lesson's whole subject.

Try it yourself with the spread-cost calculator: https://ticksprout.com/tools/spread-cost

Check your understanding

1. Where is the FX market?

a. Nowhere in particular - it is a network of dealers quoting each other
b. The London Stock Exchange
c. A central clearing house in New York
d. Each country's central bank

Answer: a. FX is dealt over the counter across a web of banks and venues with no central location. Stock exchanges list shares, not spot currency; there is no central FX clearing house for spot; and central banks are participants, not the venue.

2. Two platforms show different EUR/USD prices at the same second. What does that tell you?

a. Nothing is wrong - each assembles its own quote from its own feeds
b. One platform is showing a stale price
c. One platform is manipulating its feed
d. The market is closed on one of them

Answer: a. With thousands of simultaneous dealer quotes and different feeds behind each platform, small differences are the normal state. Staleness and manipulation are possible in principle but are not what routine tick-level differences show, and the market being open is shared by both.

3. What is the interbank market?

a. Banks dealing currencies with each other at the core of the network
b. A regulated exchange only banks may join
c. The system banks use to set the daily official rate
d. Another name for a country's central bank

Answer: a. It is the bank-to-bank dealing web where wholesale prices form - a description of activity, not an institution. It is not an exchange with membership rules, it sets no official rate because none exists, and it is distinct from any central bank.

4. Why does the same trade cost the bank in the worked example less than it costs you?

a. Its quote comes from inside the dealing core, passing through fewer hands
b. Banks are exempt from spreads
c. Banks trade at the official price
d. Regulators set lower costs for banks

Answer: a. Every tier between the core and your screen adds its margin to the spread, and the bank simply has fewer tiers above it. Banks still pay spreads - smaller ones. There is no official price to trade at, and no regulator prices the tiers.