Who trades FX, and why most of it is not speculation

> **FX MARKET PARTICIPANTS**
>
> Most foreign exchange volume comes from banks, businesses and funds moving money for operational reasons: settling invoices, hedging future payments, rebalancing portfolios. Speculators are present but a minority of flow. Around $7.5 trillion changes hands daily, which is why the market absorbs most orders without noticing them.

You open a trading account and picture the other side of your trade: someone with the opposite view, waiting to take your money. Mostly, there is no such person. The other side of the market is a car maker paying for parts, a pension fund settling a share purchase, a bank squaring its books before the close.

Who is actually in the market?

The 2022 BIS survey put daily turnover around $7.5 trillion. The bulk of it is banks dealing with each other and with large clients. Behind them sit the reasons: companies paying foreign suppliers and hedging next quarter's revenue, funds moving money across borders because they bought assets there, governments and central banks managing reserves. Travellers and card payments add a constant drizzle of small conversions.

Speculators - funds trading views, and retail traders like you - are in there too, and they matter for how prices move minute to minute. But they are a minority of the flow. Most participants transact because they must, not because they predict. The worked example shows what that looks like from inside a business.

Diagram: Participant groups by share of daily turnover. Bar length is qualitative - the point is the shape, and where you sit in it.

View it in the web lesson: https://ticksprout.com/learn/fx/market-foundations/who-trades-fx

Worked example - figures in USD

Your business owes a German supplier €8,000, payable in three months. EUR/USD trades at 1.1000 today.

1. The invoice is fixed: €8,000, due in three months, whatever the rate does. At today's 1.1000 on EUR/USD, that is $8,800 in your own money.
2. The pair moves to 1.1220. The same bill now converts at $8,976: $176 more than today. Nobody asked for your market view - the payment happens either way.
3. At 1.0780 instead, it converts at $8,624: $176 less than today. Both directions were always possible, and the invoice cares about neither.
4. This is flow: a transaction the rate can reprice but cannot prevent. Multiply it by every importer, exporter, fund and traveller in the world, and you have most of the market's daily volume.

Why does it matter that most flow is not a bet?

Two consequences. First, depth: a market where trillions move for operational reasons swallows your order without adjusting anything, which is why the pairs you trade have spreads under a pip. Second, movement without meaning: prices shift when a fund settles a purchase or a company converts quarterly revenue, and no view about the currency was involved. Reading intent into every tick assumes a market of speculators. That market does not exist.

What this means for you

The market is not against you, because the market is mostly not aware of you - the other side of your trade is usually flow, not an opponent. Deep liquidity in the major pairs is a genuine advantage: it is what keeps your costs low and your fills close to the screen. And when a price moves against your position for no visible reason, an invoice somewhere is the likeliest author. The converter below re-runs the example with your own numbers.

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

Check your understanding

1. Where does most daily FX volume come from?

a. Banks, businesses and funds moving money for operational reasons
b. Retail traders taking positions
c. Central banks setting exchange rates
d. Speculative funds trading views

Answer: a. Operational flow - dealing, settling, hedging, paying - dominates turnover. Speculative funds are present but a minority of it, retail is a sliver of that minority, and central banks transact occasionally rather than setting rates.

2. The company in the worked example pays its invoice whether the rate rises or falls. What makes this different from a trade?

a. The transaction happens regardless of any view on the rate
b. Companies get better exchange rates than traders
c. It is smaller than a typical trade
d. Nothing - paying an invoice is speculation too

Answer: a. Flow transacts because it must; a trade transacts because of a view. The rate changes what the invoice costs, never whether it is paid. Size and pricing are beside the point, and calling an unavoidable payment speculation empties the word.

3. EUR/USD ticks down while you hold it, with no news anywhere. What is the likeliest cause?

a. Operational flow - someone converted money for reasons unrelated to any view
b. Traders with better information are selling
c. Your broker moved the price
d. The market reacting to your position

Answer: a. Most volume is flow, so most unexplained movement is flow. Informed selling exists but is the smaller share; brokers pass through prices set upstream; and your position is far too small for the market to know it exists.

4. Why do the major currency pairs have spreads under a pip?

a. Enormous operational volume gives them depth that keeps the cost of crossing tiny
b. Regulators cap the spread on major pairs
c. Brokers subsidise majors to attract clients
d. Major pairs move less than other pairs

Answer: a. Depth is the product of all that non-speculative volume, and deep books make crossing cheap. No regulator caps spreads, subsidy is not a pricing model that survives, and volatility is a different property from liquidity.