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Decode The Market Code

Forex Currency Pairs

Explained

EUR/USD, GBP/USD, USD/JPY and USD/INR: what drives each pair, and how Indian traders can **access them legally**.

A FREE STUDY RESOURCE BY CHART CODE

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About This Guide

A **currency pair** quotes one currency's value against another, and reading it well means knowing which of the two economies is currently driving the price. This guide covers how pairs are quoted and classified, then what specifically drives four pairs most relevant to a trader based in India.

By the end of this guide you will know:

- How a currency pair is quoted and classified as major, minor or exotic
- What specifically drives EUR/USD, GBP/USD, USD/JPY and USD/INR
- Why the yen's carry-trade role and the RBI's managed float make some pairs behave differently
- How Indian residents can legally access currency markets through NSE and BSE derivatives
- How to apply the three quick filters before trading any pair, and the mistakes to avoid

Forex Currency Pairs Explained

Quick Answer: What Are Forex Currency Pairs and What Drives Them?

These terms cover most of what you need to know. Each is explained in full later in the guide.

Term	Meaning
Currency pair quote	In EUR/USD 1.0850, EUR is the base currency and USD is the quote currency, so one euro is worth 1.0850 US dollars. The first currency listed is always the base.
Major, minor and exotic pairs	Major pairs pair the US dollar with another heavily traded currency and usually have the tightest spreads. Minor pairs exclude the dollar but still involve widely traded currencies. Exotic pairs involve one major currency and one from a smaller economy, such as USD/INR, and typically carry wider spreads.
EUR/USD	The world's most traded pair, driven mainly by the diverging policies of the European Central Bank and the US Federal Reserve.
GBP/USD ("Cable")	Moved by Bank of England policy and UK economic data against the same US dollar side as EUR/USD.
USD/JPY	Shaped by the interest-rate gap between the US and Japan, which historically supported yen carry trades, plus the yen's separate role as a safe-haven currency in risk-off periods.
USD/INR	Influenced by RBI intervention, crude oil prices and capital flows. The RBI's managed float keeps it comparatively less erratic than fully free-floating pairs.
Legal access for Indian residents	Indian residents can trade exchange-traded currency derivatives on NSE and BSE, including cross-currency pairs. Opening an account directly with an overseas forex broker outside this framework is generally not permitted under FEMA.

1. Why Understanding Currency Pairs Matters

Every currency pair is really a story about two economies compared against each other (their central banks, their growth, their inflation, their politics) condensed into a single, constantly moving number. Reading a currency pair well means understanding which of those two stories is currently driving the price, rather than treating the chart as a self-contained puzzle.

This guide covers the basics of how pairs are quoted and classified, then walks through what specifically drives four of the pairs most relevant to a trader based in India: EUR/USD, GBP/USD, USD/JPY, and USD/INR.

2. How to Actually Use This Guide (Before You Trade Any Pair)

The most common mistake when starting out with forex is treating every currency pair the same way, applying the logic behind one pair's typical drivers to a completely different one. Each pair covered here has its own specific personality worth learning individually. Before trading any pair, run it through three quick filters:

- **Which two currencies, and which two central banks, are actually involved?** The drivers are always specific to that combination.
- **What's scheduled from either side this week?** A central bank decision or major data release from either currency can dominate short-term movement.
- **Am I accessing this legally and through the right instrument?** This matters especially for Indian residents, covered in the final section.

3. How a Currency Pair Is Quoted

Core Concept

EUR / USD

1.0850

1 Euro (base) = 1.0850 US Dollars (quote)

A currency pair is always written as base/quote: the base currency comes first, the quote currency second. The quoted number tells you how much of the quote currency it takes to buy one unit of the base currency. In EUR/USD at 1.0850, one euro is worth 1.0850 US dollars.

HOW TO READ IT

When a pair's price rises, the base currency is strengthening relative to the quote currency; when it falls, the base currency is weakening. The direction always describes the base currency's movement.

4. Major, Minor & Exotic Pairs

Classification

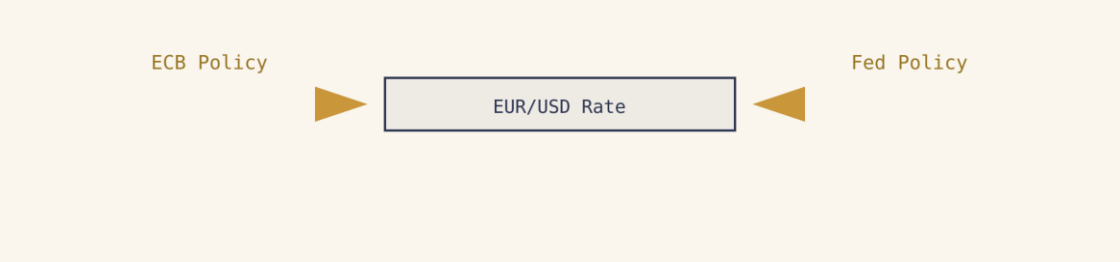
Category	Example Pairs	Typical Spread & Liquidity
Major	EUR/USD, GBP/USD, USD/JPY	Tightest spreads, highest liquidity
Minor (Cross)	EUR/GBP, GBP/JPY, EUR/JPY	Moderate spreads, good liquidity
Exotic	USD/INR, USD/TRY, USD/ZAR	Wider spreads, lower liquidity

HOW TO READ IT

Major pairs always include the US dollar paired with another heavily-traded currency. Minor pairs exclude the dollar but still involve widely-traded currencies. Exotic pairs combine one major currency with one from a smaller or developing economy.

5. EUR/USD — The World's Most Traded Pair

Major Pair



Visualising it: ECB policy and Fed policy both feed into the EUR/USD rate.

EUR/USD is the most heavily traded currency pair in the world, reflecting the combined weight of the Eurozone and US economies. Its movement is driven primarily by the relative monetary policy stance of the European Central Bank (ECB) versus the US Federal Reserve. Whichever side is raising rates faster, or signalling a more hawkish stance, tends to see its currency strengthen against the other.

HOW TO READ IT

Eurozone inflation and growth data, alongside US releases like CPI and Non-Farm Payrolls, are the scheduled events most likely to move this pair sharply.

6. GBP/USD — "Cable"

Major Pair



Visualising it: Bank of England policy, plus UK data and Fed policy, feed into the GBP/USD rate.

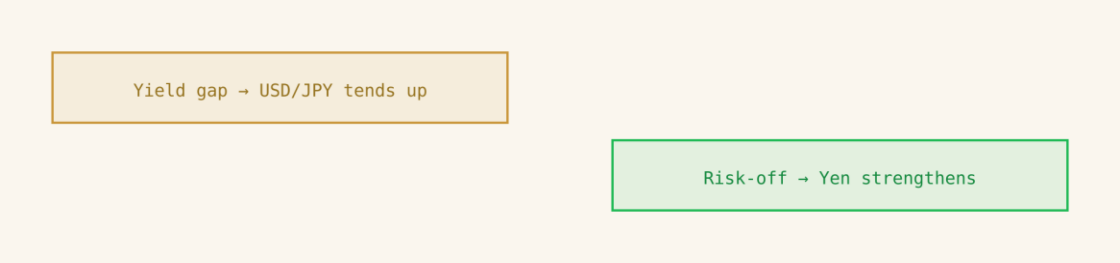
Nicknamed "Cable" from the transatlantic cable historically used to relay its price between London and New York, GBP/USD is driven by Bank of England (BoE) policy decisions, UK inflation and employment data, alongside the same US-side drivers that affect EUR/USD. The pair has a history of sharp volatility around major UK political and economic events.

HOW TO READ IT

Because it combines UK-specific political risk with the usual central bank policy drivers, GBP/USD has historically shown higher typical volatility than EUR/USD.

7. USD/JPY — Yield Differentials & the Safe-Haven Yen

Major Pair



Visualising it: two opposing forces on the yen: a yield gap that tends to push USD/JPY up, and risk-off demand that strengthens the yen.

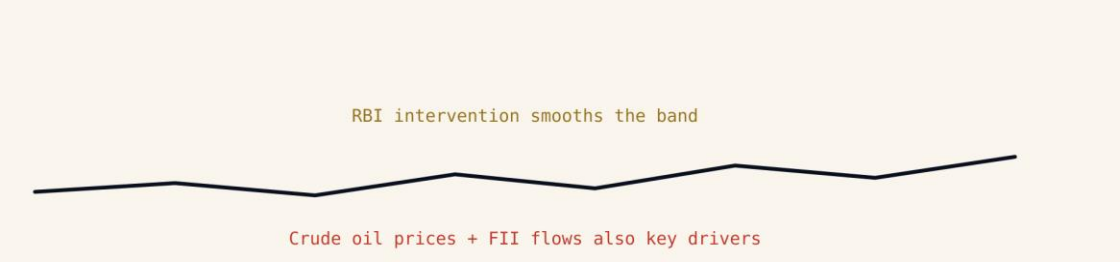
USD/JPY carries a dual character. Under normal conditions, it is heavily influenced by the **yield differential** between US and Japanese interest rates. Japan's historically very low rates relative to the US have made the pair a common vehicle for carry trade strategies, borrowing in yen to invest in higher-yielding dollar assets. Separately, the yen has its own long-standing reputation as a **safe-haven currency**, often strengthening during periods of market stress regardless of the yield picture.

HOW TO READ IT

These two forces can point in opposite directions. A risk-off event can strengthen the yen even while the underlying yield differential still favours the dollar, so it is worth identifying which force is dominant at any given time.

8. USD/INR — India's Currency Pair

Exotic Pair



Visualising it: USD/INR moves in a narrower, smoother band, with RBI intervention, crude oil prices and FII flows as key influences.

USD/INR behaves differently from the fully free-floating major pairs. The Reserve Bank of India actively manages the rupee within what is often described as a **managed float**, stepping in at times to smooth excessive volatility rather than leaving the rate to move entirely freely. Beyond RBI activity, crude oil

prices (India being a major oil importer) and foreign institutional investor (FII) flows into Indian markets are significant drivers of the pair.

HOW TO READ IT

Because of this managed approach, USD/INR often shows a narrower typical daily range than freely-floating majors, though it can still move sharply during periods of significant capital flow or policy change.

9. How Indian Traders Can Legally Access Forex

Practical & Regulatory

Access Route	Status for Indian Residents
NSE/BSE Currency Derivatives	Legal: INR pairs (USD/INR, EUR/INR, GBP/INR, JPY/INR) and select cross-currency pairs (e.g. EUR/USD)
Overseas Margin Forex Brokers	Generally not permitted under FEMA for Indian residents
Authorised Dealer Banks (for genuine needs)	Legal, for permitted current and capital account transactions

HOW TO READ IT

The legally accessible route for Indian residents to speculate on currency pairs, including cross-currency pairs like EUR/USD, is through regulated exchange-traded currency derivatives on NSE or BSE, not through opening an account with an overseas retail forex broker.

10. Common Forex Trading Mistakes to Avoid

1. **Applying one pair's logic to another:** Assuming USD/JPY and EUR/USD respond to the same drivers, when their underlying dynamics are genuinely different, leads to misreading price action.
2. **Ignoring both sides of the pair:** Focusing only on US dollar news while ignoring scheduled events from the other currency in the pair misses half the picture.
3. **Trading exotic pairs with major-pair expectations:** Expecting USD/INR to move as freely and predictably as EUR/USD ignores the managed-float dynamic specific to the rupee.
4. **Confusing the carry trade driver with the safe-haven driver:** Treating USD/JPY as purely a yield-differential trade, without accounting for the yen's separate safe-haven role, misses a key source of its volatility.
5. **Not confirming legal access before opening an account:** Signing up with an overseas retail forex broker without checking Indian regulatory rules can create compliance issues that a regulated exchange-based route avoids.
6. **Ignoring spread differences between pair categories:** Trading an exotic pair with the same tight-spread expectations as a major pair can lead to underestimating actual transaction costs.

NEXT STEP

Understanding what drives each pair is the foundation. Applying structure, liquidity and session timing concepts to forex is what we build hands-on in our Global Markets course at Chart Code, offline in Boisar or live online anywhere in India.

11. Your Forex Pair Confirmation Checklist

Before trading any currency pair in this guide, run through this five-point check:

- **Both Sides Understood** — Do you know which two central banks and economies are actually involved in this pair?
- **Category Identified** — Is this a major, minor, or exotic pair, and have you adjusted spread and liquidity expectations accordingly?
- **Scheduled Events Checked** — Are there any upcoming central bank decisions or major data releases from either currency this week?
- **Legal Access Confirmed** — Is this pair being traded through a regulated, legally accessible route for your residency status?
- **Defined Risk** — Do you know exactly where you'd be proven wrong, and have you sized the position accordingly before entering?

EDUCATIONAL CONTENT ONLY

This guide is for education only. It is not investment advice or a recommendation to buy or sell any currency pair. Currency markets are influenced by many changing factors, and no explanation of a driver guarantees future price behaviour. Trading involves risk of loss, and many retail traders lose money, so always use a predefined stop-loss, trade only through legally permitted instruments, and risk only what you can afford to lose.

12. Frequently Asked Questions

What does a currency pair quote actually mean?

A currency pair quote like EUR/USD 1.0850 means one unit of the base currency (EUR) is worth 1.0850 units of the quote currency (USD). The first currency listed is always the base, and the second is the quote.

What is the difference between major, minor and exotic currency pairs?

Major pairs involve the US dollar paired with another heavily-traded currency (like EUR/USD or USD/JPY) and generally have the tightest spreads and highest liquidity. Minor pairs exclude the US dollar but still involve widely-traded currencies (like EUR/GBP). Exotic pairs involve one major currency and one from a smaller or developing economy (like USD/INR), typically with wider spreads and lower liquidity.

Why is USD/JPY often called a carry trade pair?

Japan has historically maintained very low interest rates compared to the US, so traders have sometimes borrowed in yen to invest in higher-yielding US dollar assets, a strategy known as the carry trade. This yield differential is one of the key structural drivers behind USD/JPY, alongside the yen's separate role

as a safe-haven currency during periods of market stress.

Can Indian residents legally trade forex like EUR/USD or GBP/USD?

Indian residents can legally trade exchange-traded currency derivatives on NSE and BSE, which include cross-currency pairs such as EUR/USD alongside INR-based pairs. Opening a margin trading account directly with an overseas forex broker to trade currency pairs outside this regulated framework is generally not permitted for Indian residents under FEMA regulations.

Why does USD/INR move less erratically than pairs like GBP/USD?

The Reserve Bank of India actively manages the rupee's exchange rate within what is often described as a managed float, intervening at times to smooth excessive volatility. This is different from fully free-floating pairs like GBP/USD, which generally move without direct central bank intervention on a day-to-day basis.

Verify rules and contract details with official sources such as the SEBI Investor Website (investor.sebi.gov.in), NSE India (www.nseindia.com), BSE India and NISM.

Get in Touch

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