INTRODUCTION

The foreign exchange market is a global, worldwide decentralized financial market for trading currencies which functions with the primary purpose of assisting international trade and investment, by allowing currency conversions.

After almost three decades of government restrictions on foreign exchange enforced by Bretton Woods system post the World Wars, many countries gradually switched to floating exchange rates based on demand-supply around 1970’s.

The foreign exchange market is unique because of its huge trading volume, geographical dispersion, and continuous operation. According to the Bank for International Settlements, the average daily turnover in global foreign exchange markets is estimated at around $4 trillion.

In spite of this huge turnover, the fact remains that the industry includes many novice investors and traders. Lack of study based trading and investing leads to unprecedented losses for most.

One of the dominant debates in financial market analysis is the relative validity of the two major tiers of analysis: Fundamental and Technical. In Forex, several studies concluded that fundamental analysis was more effective in predicting trends for the long-term (longer than one year), while technical analysis was more appropriate for shorter time horizons (0-90 days). Combining both approaches was suggested to be best suited for periods between 3 months and one year.


Technical Analysis applies judgment based on experience to help investors and traders to predict the prices of stocks, bonds, indices, commodities, futures, currency. It’s based on the presumption that history repeats itself and activities of key market participants are displayed on charts.

To use technical analysis a person has to believe in the following three premises:

2. Prices move in trends.
3. History repeats itself.
The candlestick charting technique has been in existence since 1700’s but got globally recognized only in late 1980’s. Candlesticks record the same four prices as the traditional bar chart – the open, the close, the high and the low but the visual representation differs and is more appealing.

The information displayed by Candlestick Charting Technique is more easily interpreted and analysed. On the candlestick chart, a thin line (called the shadow) shows the day’s price range from the high to the low. A wider portion of the bar (called the real body) measures the distance between the open and the close. If the close is higher than the open, the real body is white (positive), else it is black.

There are many types of candlestick patterns, but they can be categorized into how many bars make up the candlestick pattern. Some of the common types of candlestick patterns are the following:

Single Candle Patterns:
Spinning Tops, Dojis, Marubozu, Inverted Hammer, Hanging Man, Shooting Star etc.

Double Candle Pattern:
Bullish and Bearish Engulfing, Tweezer Tops and Bottoms etc.

Triple Candle Pattern:
Morning and Evening Stars, Three Black Crows and Three White Soldiers, Three Inside Up and Down etc.

Multi Candle Pattern:
Rivers and Mountains, Cup and Handle Pattern etc.

Important points while trading using Japanese Candlestick Techniques:
1. Pattern is treated as formed, when market totally completed it – i.e. after close of trading session. Do not try to anticipate the patterns.
2. Most patterns are treated as triggered by the market if the market closes above/below of high/low of the pattern on the next trading session according (i.e. confirming) with the pattern’s direction.
3. Most patterns are treated as failed if the market closes above/below of high/low of the pattern on the next trading session against (i.e. disaffirm) the pattern’s direction.
This study shall make attempts to identify patterns and the ideal timeframe to improve the risk-reward ratio in Indian Foreign Exchange trades by using Japanese Candlestick Techniques. It shall also focus on developing new trading strategies.