

Reading Your First Quote

BEFORE YOU BEGIN

This lesson builds directly on the idea that a currency's value only exists in comparison to another currency. If that is unfamiliar, Lesson 1 covers it.

Everything here is about literacy, not math. There are no calculations to do. At the back you will find a glossary and a knowledge check with a full answer key.

WHAT YOU'LL LEARN

- How to identify the base and the quote currency in any pair
- How to read a price out loud as a plain sentence
- Why currency prices carry so many decimal places
- What a pip is, and how traders use the word
- Why every pair has two prices instead of one
- What the spread is and where it comes from

1. What You Are Actually Looking At

Here is a number you have probably seen before, even if you were not paying attention to it:

$$\text{EUR/USD} = 1.0850$$

It is the most-quoted number in the largest market on the planet. It scrolls across the top of financial news sites, sits in the corner of trading screens, and gets mentioned in passing on business television as if everyone already understands it.

Most people do not. They see letters, a slash, and a decimal, and they assume there is some background knowledge they are missing.

There isn't. By the end of this lesson you will read that line the way you read a sentence, because that is all it is. Every part of it says something specific, and there are only three parts.

2. A Pair Is a Price Tag

Before the numbers, look at the letters.

EUR slash USD. Two currencies with a slash between them. The first one, the euro, is what is being priced. The second one, the dollar, is what it is being priced in.

That is the whole structure, and you already understand it from ordinary life. Think about a price tag on a t-shirt. The shirt is one thing. The dollar amount on the tag is another thing. The tag connects them and tells you how much of the second it takes to get one of the first.

A currency pair is a price tag. The only unusual part is that the thing being priced happens to be money.

3. Base and Quote

Those two positions have names, and traders use them constantly.

The **base currency** is the first one listed. It is the thing being priced. In our price tag, it is the shirt.

The **quote currency** is the second one listed. It is the thing doing the pricing. It is the dollar amount on the tag.

A few examples, so the pattern locks in:

Pair	Base Currency	Quote Currency
EUR/USD	Euro	U.S. dollar
USD/JPY	U.S. dollar	Japanese yen
GBP/USD	British pound	U.S. dollar
USD/CAD	U.S. dollar	Canadian dollar

Notice that the dollar is the base in some pairs and the quote in others. Nothing about a currency makes it permanently one or the other. Position in the pair is what decides the role, and the order is set by market convention rather than by any rule you need to memorize.

One thing never changes: the price always refers to exactly one unit of the base currency. Not ten, not a hundred. One.

4. What the Number Actually Says

Now put the letters and the number together.

EUR/USD at 1.0850 means one euro costs 1.0850 U.S. dollars. One euro, a dollar and about eight and a half cents. That is the entire message.

Read any pair the same way, as a fill-in-the-blank sentence:

THE SENTENCE

One [base currency] costs [the number] [quote currencies].

GBP/USD at 1.3587: one British pound costs 1.3587 U.S. dollars.

USD/CAD at 1.3724: one U.S. dollar costs 1.3724 Canadian dollars.

If the number rises to 1.0900, the euro just became slightly more expensive to buy. If it falls to 1.0800, the euro became slightly cheaper. Same shirt, different price tag.

Every pair, on every platform, anywhere in the world, works exactly this way.

5. Why There Are So Many Decimals

That number, 1.0850, carries more digits than you would ever see on a store shelf. There is a practical reason.

Currencies do not move in dollars. They move in tiny fractions of a cent, thousands of times a day. If the market only tracked two decimal places, almost every trade would look like no change at all, and there would be no way to see what was happening.

So most pairs are quoted to four decimal places. Many platforms show a fifth, printed smaller or raised, which is a finer subdivision used for more precise pricing. It has a name, the pipette or fractional pip, though you can safely ignore it for now.

The fourth decimal place is the one that matters, and it has a name of its own.

6. The Pip

A **pip** is one tick of the fourth decimal place. It is the standard unit of movement in the currency market.

The word is short for percentage in point, but almost nobody thinks about it that way, and you do not need to. Remember it as the fourth decimal and you will never be confused.

Movement	In Pips
1.0850 to 1.0851	1 pip
1.0850 to 1.0860	10 pips

Movement	In Pips
1.0850 to 1.0900	50 pips
1.0850 to 1.0950	100 pips

This is the vocabulary traders actually speak in. You will hear that EUR/USD moved thirty pips today, or that GBP/JPY dropped eighty pips on the news. All they are describing is how far the price traveled, without having to say zero point zero zero three out loud every time.

What a pip is worth in real money depends on how large your position is, which is a topic for later in this series. For now, knowing what a pip is when you hear it is enough.

WORTH KNOWING

There is one common exception worth learning now, because you will run into it the first time you look at a yen pair. Pairs quoted in Japanese yen, such as USD/JPY or GBP/JPY, carry only two decimal places rather than four, because a single yen is worth far less than a dollar or a euro.

For those pairs the pip is the second decimal place. USD/JPY moving from 156.75 to 156.76 is one pip. The idea is identical, the decimal position just sits somewhere else.

7. Every Pair Has Two Prices

Here is something most beginners do not realize at first, and it surprises almost everyone.

A currency pair does not have one price. It has two, at all times.

There is the price at which the market will buy from you, and the price at which the market will sell to you. Those two numbers are always slightly different, and both are live at the same moment.

This is not unique to currencies. It works the same way at a coin shop or a used car lot. The dealer will sell you the item for one number and buy it back from you for a slightly lower one, and the difference is how the dealer stays in business.

8. Bid and Ask

The two prices have names.

The **bid** is the price the market will buy from you. If you want to sell, that is your number.

The **ask** is the price the market will sell to you. If you want to buy, that is your number.

There is an easy way to keep them straight, and it works forever: the market asks for more than it bids. The ask is always the higher number. The bid is always the lower one. There are no exceptions to this.

Price	Value	Who Uses It	Position
Bid	1.0848	You, when selling	Always lower
Ask	1.0850	You, when buying	Always higher

9. The Spread

The gap between the bid and the ask has a name too. It is called the **spread**.

On EUR/USD, the spread is usually about one or two pips. On less commonly traded pairs it can be considerably wider, and on any pair it can widen during fast news or quiet overnight hours.

The spread is, in plain terms, the cost of doing the trade. Brokers buy at the bid, sell at the ask, and keep the difference. It is how the business is paid, and it is why trading is never entirely free even when a platform advertises zero commission.

That is as far as we go with it here. The spread has real consequences for how a trade performs, and it gets a full treatment later in this series. For now, recognizing it on a screen is the goal.

10. Reading a Live Screen

Put all six terms together and look at what a real quote line contains.

What You See	What It Is	What It Tells You
EUR/USD	The pair	Euro is the base, dollar is the quote.
1.0850	The rate	One euro costs 1.0850 dollars.
The 4th decimal	The pip	Where movement is counted.
1.0848	The bid	What you get if you sell.
1.0850	The ask	What you pay if you buy.
The gap	The spread	The cost of doing the trade.

Not every platform displays all of this. Many tickers show a single price, which is usually the ask or a midpoint between the two. Detailed quote screens and charting pages tend to show the bid and ask separately.

Either way, nothing on that screen is hidden from you anymore. Six terms cover it: base, quote, pip, bid, ask, spread.

Three Things to Remember

LOCK THESE IN

- 1. A pair is a price tag.** The base currency is what is being priced. The quote currency is what it is priced in. The number is always the cost of exactly one unit of the base.
- 2. A pip is the standard unit of movement.** It is the fourth decimal place on most pairs, and the second on yen pairs. It is how traders describe how far a price traveled.
- 3. There are always two prices.** The bid is what you get when selling, the ask is what you pay when buying, and the gap between them is the spread.

Try This

Five minutes. This is what turns recognition into fluency.

DO THIS

- Step 1.** Open Currency News Source and pick any pair other than EUR/USD. Something like GBP/JPY, USD/CAD, or AUD/USD. Whichever one catches your eye.
- Step 2.** Identify the base and the quote. First position is the base, second position is the quote. Record your answer however you like: a screenshot, a note on your phone, a page in a notebook.
- Step 3.** Read the rate as a sentence, out loud if you can. "One _____ costs _____." Saying it aloud does something that reading it silently does not.
- Step 4.** Find where the pip sits on that pair. Fourth decimal for most, second decimal if the quote currency is the yen.
- Step 5.** Check whether the pair is up or down today, and work out which of the two currencies got stronger to make that happen.

Run it on three different pairs and it stops being a procedure and starts being something you just see.

Words From This Lesson

Term	What It Means
Currency pair	Two currencies quoted against each other, written with a slash, such as EUR/USD.
Base currency	The first currency in a pair. The one being priced. The rate always refers to one unit of it.
Quote currency	The second currency in a pair. The one doing the pricing.
Exchange rate	How much of the quote currency one unit of the base currency costs.
Pip	The standard unit of price movement. The fourth decimal place on most pairs, the second on yen pairs.
Pipette	A fractional pip. The fifth decimal place, shown on some platforms for finer pricing.
Bid	The price at which the market will buy from you. The lower of the two prices.
Ask	The price at which the market will sell to you. The higher of the two prices.
Spread	The gap between the bid and the ask. The cost of doing the trade.

Test Your Knowledge

Eight questions. Answer them all before checking the key on the following pages. If a question gives you trouble, the answer key tells you exactly which section to revisit.

1. In the pair USD/JPY, which currency is the base?

- A. The Japanese yen
- B. The U.S. dollar
- C. Both, because the pair is a ratio
- D. Whichever one is currently stronger

2. GBP/USD is quoted at 1.3587. What does that tell you?

- A. One U.S. dollar costs 1.3587 British pounds
- B. One British pound costs 1.3587 U.S. dollars
- C. The pound has risen 1.3587 percent against the dollar
- D. The pound and the dollar are close to equal in value

3. EUR/USD moves from 1.0850 to 1.0875. How far did it move?

- A. 2.5 pips
- B. 25 pips
- C. 250 pips
- D. 0.0025 pips

4. On most currency pairs, where is the pip?

- A. The first decimal place
- B. The second decimal place
- C. The fourth decimal place
- D. It varies with the size of your position

5. You want to buy EUR/USD. Which of the two prices applies to you?

- A. The bid
- B. The ask
- C. Either one, since they are the same number
- D. The midpoint between them

6. Which statement about the bid and the ask is always true?

- A. The bid is higher than the ask
- B. The ask is higher than the bid
- C. They are identical whenever a market is busy

D. Which one is higher depends on the direction you are trading

7. What is the spread?

- A. How far a pair typically moves in a single day
- B. The gap between the bid price and the ask price
- C. The difference in value between the base and the quote currency
- D. The number of pips a pair has moved this week

8. USD/JPY is quoted at 156.75. Where is the pip on this pair?

- A. The fourth decimal place, as on every pair
- B. The second decimal place
- C. Yen pairs do not use pips
- D. The first digit before the decimal

Answer Key

Each answer explains why the correct choice is correct, why the others are not, and where to reread if you want the fuller picture.

Question 1 **Correct answer: B**

The base currency is whichever one is listed first, and in USD/JPY that is the dollar. So the quote tells you how many yen one dollar costs.

A reverses the two positions, which would describe JPY/USD instead. C treats the pair as symmetrical, but the two positions do different jobs and only one of them is priced. D is wrong because relative strength has no bearing on the order, which is fixed by market convention.

Review: Section 3, Base and Quote

Question 2 **Correct answer: B**

Read it as one unit of the base priced in the quote. The pound is listed first, so one pound costs 1.3587 dollars.

A inverts the pair. C mistakes a price level for a percentage change, and a single quote says nothing about direction or movement. D would require a rate near 1.0000, whereas 1.3587 means the pound is worth substantially more than the dollar.

Review: Section 4, What the Number Actually Says

Question 3 **Correct answer: B**

Count the movement in the fourth decimal place. From 1.0850 to 1.0875 is 25 ticks of that digit, which is 25 pips.

A halves the answer, most likely by counting the third decimal instead. C is off by a factor of ten and would represent a very large daily move on this pair. D restates the raw decimal difference rather than converting it into pips, which is the whole purpose of the unit.

Review: Section 6, The Pip

Question 4 **Correct answer: C**

The fourth decimal is the standard pip position on most pairs, which is why quotes are carried out to four places in the first place.

A and B are too coarse for most pairs, though B is correct for the yen exception covered in the same section. D confuses the pip with pip value, which is a separate idea: a pip is a fixed position in the price, while what it is worth in money depends on position size.

Review: Section 6, The Pip

Question 5 **Correct answer: B**

The ask is the price the market sells to you at, so it is the price you pay when buying.

A is the price that applies when you sell, not buy. C is wrong because the two prices are never the same, since the gap between them is what pays the broker. D describes a reference price some platforms display, but you cannot actually transact at it.

Review: *Section 8, Bid and Ask*

Question 6 Correct answer: B

The market asks for more than it bids. The ask always sits above the bid, and the gap between them is the spread.

A reverses the relationship, which would mean the broker paid you to trade. C describes a spread narrowing in a busy market, which does happen, but it never reaches zero. D is wrong because the two prices are quoted continuously for everyone, regardless of what any individual trader is doing.

Review: *Section 8, Bid and Ask*

Question 7 Correct answer: B

The spread is the distance between the two live prices, and it represents the cost of entering the trade.

A describes a pair's daily range, a separate measure of volatility. C describes the exchange rate itself rather than the gap between the two quoted prices. D describes a movement over time, whereas the spread exists at every instant.

Review: *Section 9, The Spread*

Question 8 Correct answer: B

Yen pairs are quoted to two decimal places rather than four, because a single yen is worth far less than a dollar. The pip is therefore the second decimal.

A applies the general rule without the exception, which is the most common mistake on this pair. C is wrong because yen pairs use pips like every other pair, just at a different decimal position. D would make a single pip an enormous move rather than the smallest standard one.

Review: *Section 6, The Pip*

This lesson is education, not financial advice. Nothing in it is a recommendation to buy or sell anything, and the examples use illustrative numbers, not live prices. Trading currencies and crypto carries a high risk of loss.

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