

Who Moves the Market?

BEFORE YOU BEGIN

The lessons so far have been about mechanics: reading a quote, reading a chart, understanding a position. This one is about people.

Nothing here requires any background in economics or banking. Every institution is explained the first time it appears. A glossary and a knowledge check with a full answer key are at the back.

WHAT YOU'LL LEARN

- Who the five kinds of participant in the currency market are
- Why central banks move prices more than anyone, while barely trading
- What big banks actually do all day, and why it matters to you
- Why most currency trading has nothing to do with predicting prices
- Where you sit in the structure, and what that does and does not mean
- How to trace a real headline to a real move on a chart

1. Who Is on the Other Side

Every trade has two sides. When you buy, somebody sells. That is not a technicality, it is the structure of the entire market, and it raises a question that beginners rarely ask early enough.

Who are these people?

The answer turns out to be one of the most clarifying things you can learn. Currency prices stop looking like weather, arbitrary and unexplainable, and start looking like the outcome of specific decisions made by specific kinds of institution for specific reasons.

Most of them are not trying to do what you are trying to do. That fact is worth holding onto, because it explains a great deal about how prices actually behave.

2. The Pyramid

The currency market has a hierarchy, and the clearest way to picture it is as a pyramid.

At the narrow top sits a very small number of extraordinarily powerful institutions. Each layer below is larger in number and smaller in individual influence. At the wide base sit millions of ordinary people, each one tiny.

Five layers, from the top down.

Layer	Who They Are	What They Are Actually Doing
Central banks	The Fed, the ECB, the Bank of Japan, the Bank of England	Setting the rules that everything else responds to
Big banks	A handful of global institutions	Running the market's daily machinery
Hedge funds	Large private investment firms	Betting on direction, at enormous scale
Corporations	International businesses of every kind	Converting money because they have to
Retail traders	Individuals, including you	Reading the market and taking positions

Notice the third column. Only two of these five groups are primarily trying to profit from price movement. The other three are in this market for entirely different reasons, and between them they account for most of what happens on a chart.

3. Central Banks: The Rule-Setters

Every major currency has a central bank standing behind it. The United States has the Federal Reserve. The eurozone has the European Central Bank. Japan has the Bank of Japan. The United Kingdom has the Bank of England.

These are not banks in the ordinary sense. You cannot open a checking account at the Federal Reserve. They are closer to referees of an entire monetary system. They set the country's main interest rate, they influence how much currency exists, and they answer for the health of the currency itself.

Recall the three reasons currencies move: interest rates, economic strength, and news. Central banks directly control the first, heavily influence the second, and generate a large share of the third. They sit at the top of the pyramid because they sit at the source of the price.

4. Why They Move Prices Without Trading

Here is the genuinely strange part, and it is the most useful thing in this lesson.

Central banks are by far the most powerful movers of currency prices, and they hardly ever place a trade.

When the Federal Reserve wants to affect the dollar, nobody logs into a platform and clicks buy. They publish a statement. They hold a press conference. They change a rate by a quarter of a percentage point.

And then every other layer of the pyramid moves. Banks reposition. Funds reprice their bets. Corporations adjust their hedging. Millions of retail traders react. The price can travel a long way before the central bank itself has transacted anything at all.

This is why the biggest single-day moves on most pairs cluster around central bank announcements, and why experienced traders keep those dates marked well in advance. It is not the transaction that moves the market. It is the information.

WORTH KNOWING

Central banks do occasionally trade their own currency directly, which is called intervention. A government may buy or sell enormous quantities to push its currency away from a level it considers damaging.

It is rare, and it is deliberately dramatic when it happens. Japan is the best-known modern example, having intervened to support the yen on several occasions. But intervention is the exception. The everyday mechanism is words and rates, not trades.

5. Big Banks: The Plumbing

One layer down sit the large global banks. A small number of institutions handle an enormous share of the world's currency trading, every second of every day.

If central banks are the referees, big banks are the field itself. They do two things. They execute currency transactions for very large clients, including governments, corporations, funds, and each other. And they trade their own money, in size.

This connects directly to something you already know. The bid and the ask, the two prices every pair carries, exist because institutions are willing to quote both sides continuously. That willingness is what makes the market usable. Without someone standing ready to buy when you want to sell, your order would simply sit there.

The market these institutions trade with each other is called the interbank market, and it is where the prices you eventually see on a retail screen originate.

WORTH KNOWING

When you click buy on a retail platform, you are usually not matched with another individual trader. Your broker is typically the direct counterparty to your position, and it then manages its own overall exposure in the wider market.

This is normal and is how most retail currency trading is structured. It is worth knowing simply so that the chain from your click to the interbank market is not a mystery.

6. Hedge Funds: The Sophisticated Bettors

Below the banks sit hedge funds and other large investment firms.

These are the participants doing most nearly what you are doing. They are trying to work out which direction a price will go and to profit from being right. The difference is scale and resources. They operate with enormous sums, teams of researchers, and infrastructure built to act on information faster than a person can read it.

They do not shape the market the way central banks do, and they do not carry the daily volume that the big banks do. But when a large number of them reach the same conclusion at the same time, the effect is plainly visible on a chart.

7. Corporations: The Practical Converters

Below the funds sit ordinary international businesses, and this layer surprises people.

A French winemaker sells cases to an American distributor and is paid in dollars. Its workers, its suppliers, and its rent are all in euros. Somebody has to convert that money, and the currency market is where it happens.

Now multiply that by every manufacturer selling abroad, every airline buying fuel overseas, every retailer paying foreign suppliers, every government paying a foreign contractor. The total is staggering, and it is happening constantly.

Here is what matters about this layer. These businesses have no view on where prices are going. They are not betting. They convert because their operations require it, and they would do it whether the rate is favorable or not. Many also lock in future rates in advance to protect themselves from movement, which is called hedging.

A large share of everything that happens in this market is not speculation at all. It is the plumbing of global commerce.

8. Retail Traders: Where You Fit

At the wide base of the pyramid are retail traders. People at kitchen tables, on phones, in offices during a lunch break. Individuals, trading their own money.

Retail is the largest layer by number of participants and the smallest by share of volume. There are millions of retail traders worldwide and, at the top of the pyramid, a number of major central banks you could count on your fingers.

Estimates of retail's share of daily currency volume vary, but every serious estimate puts it in the low single digits as a percentage. Whatever the exact figure, the shape of the answer is not in dispute. Individually and collectively, retail traders do not move this market.

9. Your Size Does Not Determine Your Skill

That last sentence can land badly, so let's be clear about what it does and does not mean.

It is true that you will never move a currency price. It is also true that this does not matter, because moving the market was never the job.

The job is reading it. Central banks set the direction. Big banks carry the flow. Funds and corporations push prices around in the course of their own business. All of that activity produces a chart, and that chart is equally visible to everyone.

Your size does not determine your skill.

The market does not know how large your position is and does not behave differently because of it. A pair that moves thirty pips moves thirty pips for a bank and for a beginner alike. The only question that separates them is whether each one read the move correctly.

Being small has some real advantages, too. You are not obliged to trade. You have no clients expecting activity, no quarterly performance to report, no positions so large that entering or exiting one moves the price against you. You can simply wait for something you understand. Most of the pyramid above you cannot.

Three Things to Remember

LOCK THESE IN

- 1. The market is a pyramid.** Central banks at the top, then big banks, then hedge funds, then corporations, then retail traders at the wide base.
- 2. Central banks move prices with information, not transactions.** They set rates and make announcements, and everyone else repositions. That is why announcement days produce the largest moves.
- 3. Most currency trading is not speculation.** Corporations and banks move money because their operations require it. You are reading a market that is mostly doing something other than betting.

Try This

Ten minutes. This is where the pyramid stops being a diagram and starts being visible on a chart.

DO THIS

Step 1. Open the news feed on Currency News Source and scroll until you find a headline mentioning a central bank. The Federal Reserve, the European Central Bank, the Bank of Japan, or the Bank of England will all appear regularly.

Step 2. Identify which currency that central bank stands behind. The Federal Reserve means the dollar, the European Central Bank means the euro, the Bank of Japan means the yen, the Bank of England means the pound.

Step 3. Find a pair containing that currency and look at the chart around the time the story landed. Record what you see however you like: a screenshot, a note, a page in a notebook.

Step 4. Ask whether the currency strengthened or weakened, and by roughly how many pips. Some reactions are dramatic and some are barely visible. Both are worth seeing.

Step 5. Repeat with two more headlines. The pattern you are looking for is not that the price always rises or always falls. It is that the top of the pyramid speaks and the chart answers.

Do this a handful of times and central bank announcements stop being background noise. They become the most predictable appointments on your calendar.

Words From This Lesson

Term	What It Means
Central bank	The institution responsible for a country's currency and its main interest rate. Examples: the Federal Reserve, the European Central Bank, the Bank of Japan, the Bank of England.
Intervention	The rare occasions when a central bank buys or sells its own currency directly to influence its price.
Interbank market	The market in which large banks trade currency with one another. The origin of the prices that reach retail screens.
Liquidity	How readily something can be bought or sold without difficulty. Provided in currency markets by institutions quoting both a bid and an ask continuously.
Hedge fund	A large private investment firm that trades to profit from price movement, typically with substantial resources and scale.
Hedging	Locking in a future exchange rate in advance to protect against unfavorable movement. Common among international businesses.
Counterparty	The other side of a trade. The party who sells when you buy, or buys when you sell.
Retail trader	An individual trading their own money, as opposed to an institution trading on behalf of clients or a firm.

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. Which group sits at the top of the market pyramid?

- A. The largest hedge funds
- B. Central banks
- C. The major global banks
- D. Multinational corporations

2. How do central banks primarily move currency prices?

- A. By placing very large trades
- B. By setting rates and making announcements that everyone else reacts to
- C. By instructing commercial banks to buy or sell
- D. By limiting how much currency can be traded each day

3. What is the main role of the large global banks in this market?

- A. Setting national interest rates
- B. Executing enormous volumes and quoting prices continuously
- C. Regulating the behavior of retail traders
- D. Predicting central bank decisions for the public

4. Why do international corporations participate in the currency market?

- A. To profit from short-term price movement
- B. Because their operations require converting one currency into another
- C. To help central banks manage exchange rates
- D. To provide liquidity as a public service

5. Which statement about retail traders is accurate?

- A. They are the largest group by number and the smallest by share of volume
- B. They are the largest group by both number and volume
- C. They account for roughly half of daily trading volume
- D. They exist in similar numbers to central banks

6. Why do central bank announcement days often produce the largest moves on a chart?

- A. Because trading volume is restricted on those days
- B. Because every other layer of the market repositions in response to the information
- C. Because central banks execute their largest trades on those days

D. Because brokers widen their prices on announcement days

7. What does the widening shape of the pyramid from top to bottom represent?

- A. Increasing influence over prices as you move down
- B. Increasing number of participants and decreasing individual influence
- C. Increasing wealth as you move down
- D. The order in which participants entered the market historically

8. Your position is very small compared with an institution's. What follows from that?

- A. The price will move differently for you than for them
- B. The price moves identically for everyone, so the task is reading direction correctly
- C. You should trade more often to compensate for the size difference
- D. Small positions are exempt from the costs institutions face

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**

Central banks occupy the narrow top of the pyramid because they control the interest rate and the conditions that every other participant is reacting to.

A and C name participants who sit lower and operate within the conditions central banks set, though the big banks do carry far more daily volume. D describes the layer with the least influence over direction of the four listed, since corporations convert currency without any view on price.

Review: Section 2, The Pyramid

Question 2 **Correct answer: B**

The mechanism is information rather than transaction. A rate decision or a statement causes every other layer to reposition, and the price moves before the central bank transacts anything.

A is the intuitive answer and the one this lesson exists to correct, though direct intervention does occasionally happen. C is wrong because commercial banks are not directed to trade in this way. D describes capital controls, which exist in some countries but are not how major central banks operate.

Review: Section 4, Why They Move Prices Without Trading

Question 3 **Correct answer: B**

Big banks are the market's daily machinery. They handle enormous transaction volume and quote both a bid and an ask continuously, which is what makes the market usable for everyone else.

A is the central banks' role. C is wrong because regulation comes from government agencies rather than from banks. D describes what analysts and commentators do, which is not what makes big banks structurally important.

Review: Section 5, Big Banks

Question 4 **Correct answer: B**

Corporations convert currency because their operations demand it. They get paid in one currency and have obligations in another, and would convert regardless of the rate.

A describes hedge funds and retail traders, not ordinary businesses. C misunderstands the relationship, since corporations are not acting on behalf of central banks. D is wrong because liquidity is a byproduct of their activity rather than its purpose.

Review: Section 7, Corporations

Question 5 **Correct answer: A**

There are millions of retail traders and only a handful of institutions at the top, but retail accounts for a small single-digit share of daily volume by every serious estimate.

B is right about number and wrong about volume, which is the exact confusion this section addresses. C wildly overstates retail's share. D inverts the picture, since central banks number in the dozens worldwide while retail traders number in the millions.

Review: *Section 8, Retail Traders*

Question 6 Correct answer: B

An announcement changes what everyone believes about a currency at the same moment, and every layer of the pyramid adjusts at once. Simultaneous repositioning produces large moves.

A is wrong because volume typically rises rather than being restricted. C misunderstands the mechanism, since the move happens without central bank transactions. D describes a real effect around major news, but it is a consequence of the volatility rather than its cause.

Review: *Section 4, Why They Move Prices Without Trading*

Question 7 Correct answer: B

The pyramid widens downward because each layer contains more participants than the one above, while each individual participant carries less influence over price.

A inverts the relationship the shape is designed to show. C is wrong because wealth concentrates toward the top rather than the bottom. D is wrong because the pyramid describes present-day structure and says nothing about historical sequence.

Review: *Section 2, The Pyramid*

Question 8 Correct answer: B

The market has no knowledge of your position size and does not behave differently because of it. A thirty pip move is a thirty pip move for everyone, so the task is reading direction.

A attributes an awareness to the market that it does not have. C confuses activity with skill, and trading more frequently to compensate for size is a reliable way to lose money. D is wrong because costs apply to positions of every size.

Review: *Section 9, Your Size Does Not Determine Your Skill*

EDUCATIONAL CONTENT ONLY

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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