

Module 7: Grid Trading Success factors: Interest Charges

Hedged Grid Trading works very well in a sideways trending market and a lot of money can be made. There are however areas that have to be managed very carefully:

INTEREST CHARGES ON OVER NIGHT DEALS:-

One of the costs of holding a hedge is the interest charges (or credits) raised by brokers on overnight transactions. These are normally based on the interest differential between the currencies in crosses used for the Grid trading e.g. GBPUSD the brokers will use the interest difference between the UK and the US as the basis of the charge or credit. There are other factors that go into this calculation but the main one is the interest differential.

It is important that when trading the grid system that currency crosses are selected that have the lowest charges as sometimes hedges will be active for a long time and the holding cost could start eliminating the benefit of the hedge.

Below is the latest over night interest charges and credits used by FXCM on overnight transactions.

Click to enlarge. ...

{gallery}01/grid10{/gallery}

From this list it is clear that the best currencies to for Grid trading would be the EURUSD due to the low charges / credits used by the broker. The EURJPY would be poor currencies to use as their charges / credits are relatively high.

A good way of calculating the impact of overnight interest on potential gains is to divide the value to of the grid gap by the daily overnight charge. This will effectively give you the number of days it will take before the benefit of a cashed in grid leg is cancelled out by the interest charges.

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Example for the EURUSD

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Value of Grid Gap \$ 1 000 (\$10 x 100pips)

Overnight interest \$ 1.80 per night

Days 555 days

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Example for the EURJPY

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Value of Grid Gap \$ 1 000 (\$410 x 100pips)

Overnight interest \$ 11.20 per night

Days 89 days

Please be aware that these charges are dynamic and change continuously.