

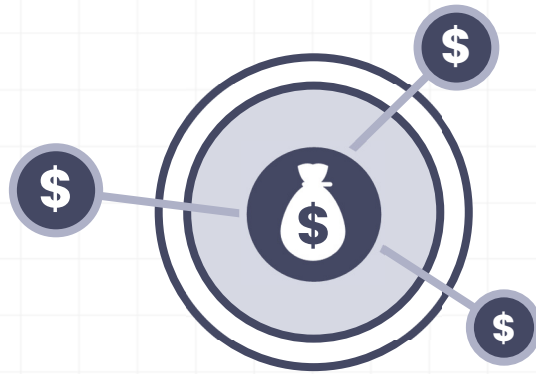


Financial Marketplaces and Prices

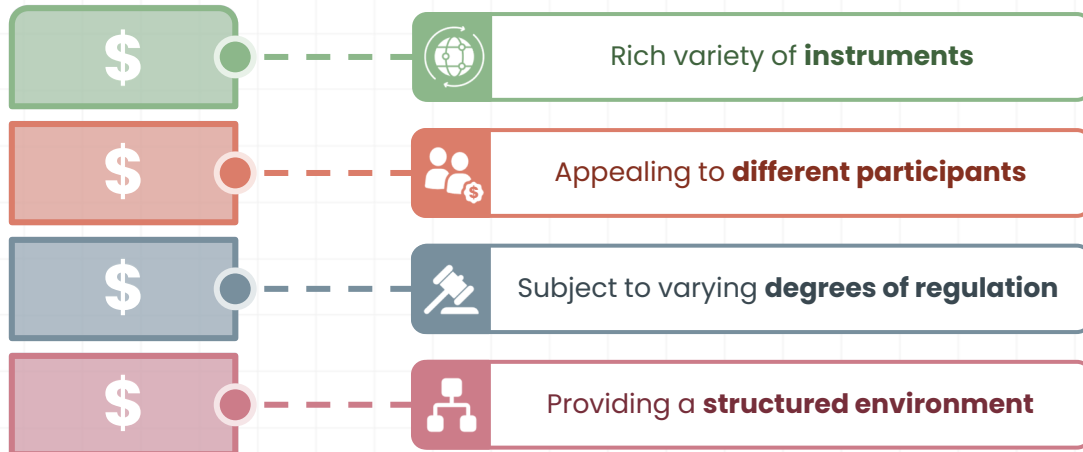
The header features a light gray background with a grid pattern. At the top, there are three circular icons: a person with a money bag, a document with a dollar sign and a star, and a bar chart. Below the icons is a bar chart with three bars of increasing height. The text 'What is a Financial Marketplace?' is centered in a large, bold, black font.

What is a Financial Marketplace?

In the realm of **financial marketplaces**
there's a **broad spectrum** to understand

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Diving into the Depths...

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Primary vs.
Secondary

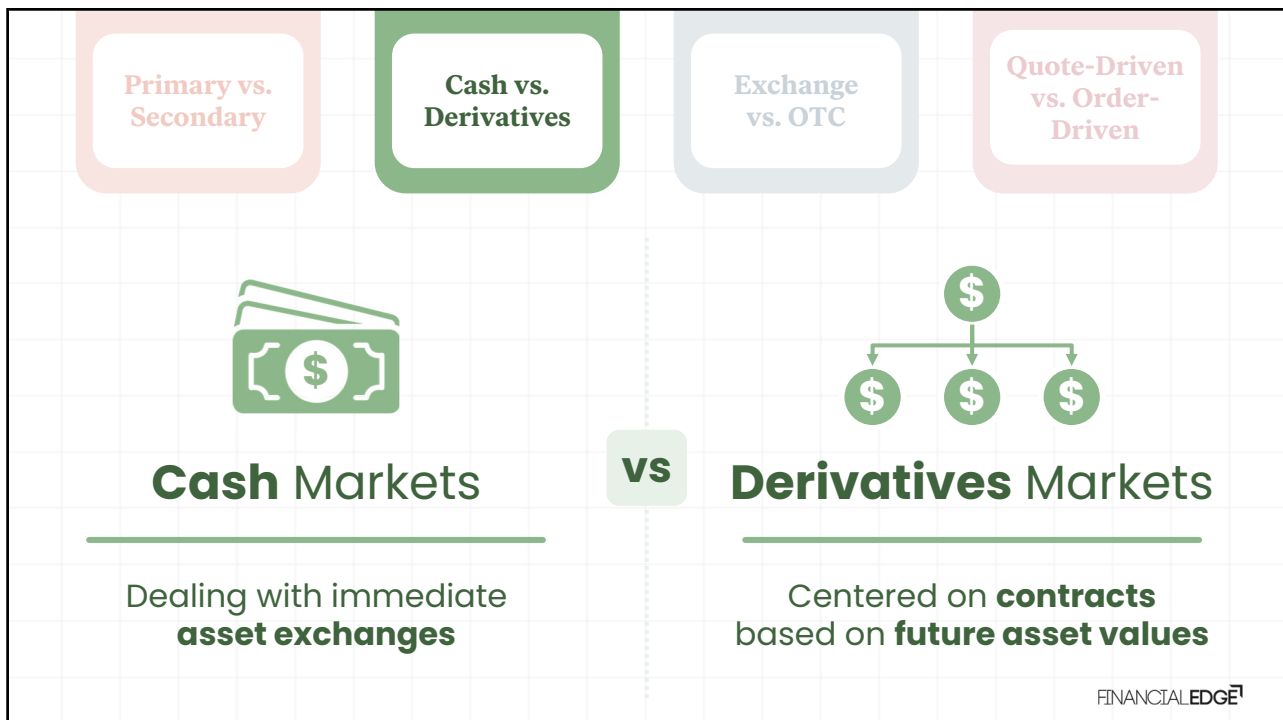
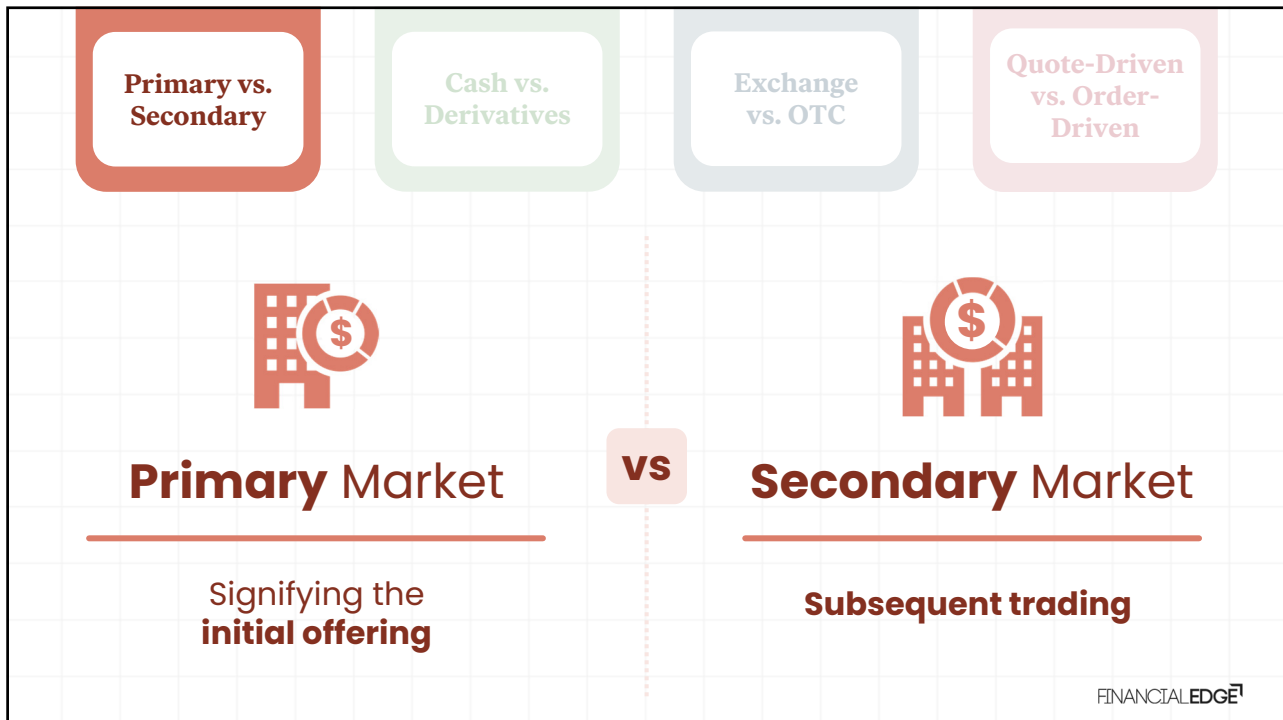
Cash vs.
Derivatives

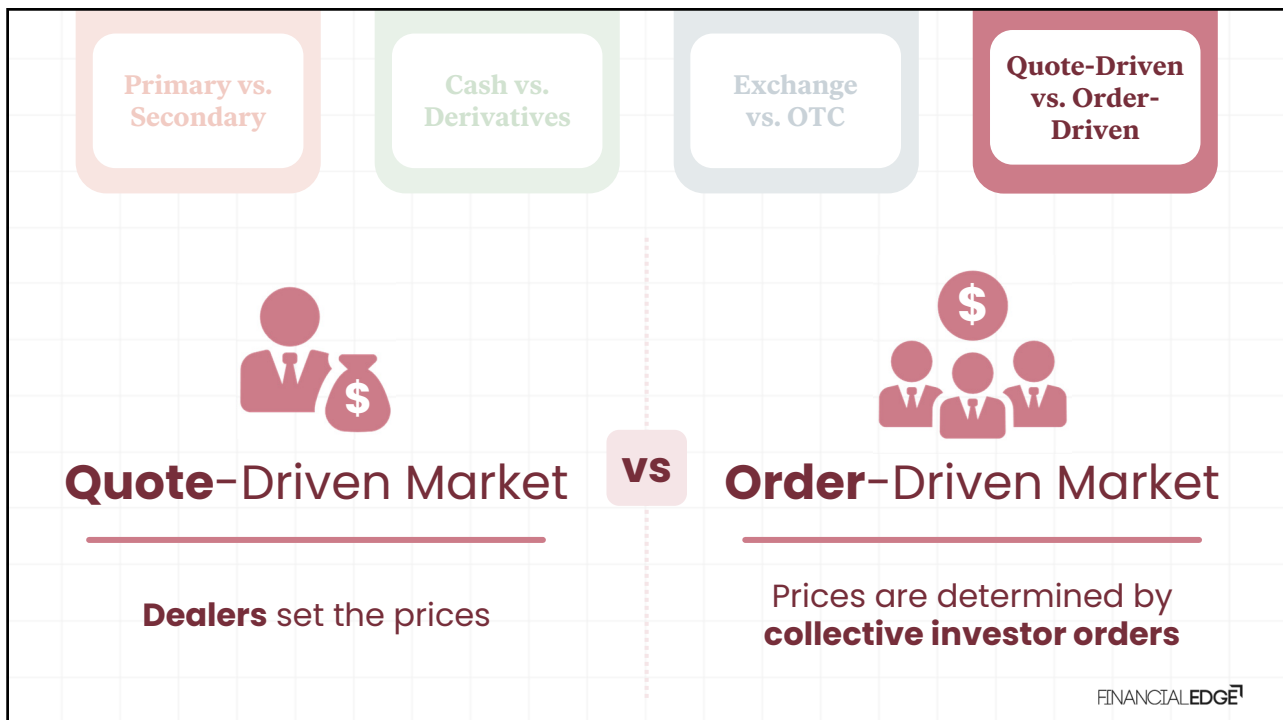
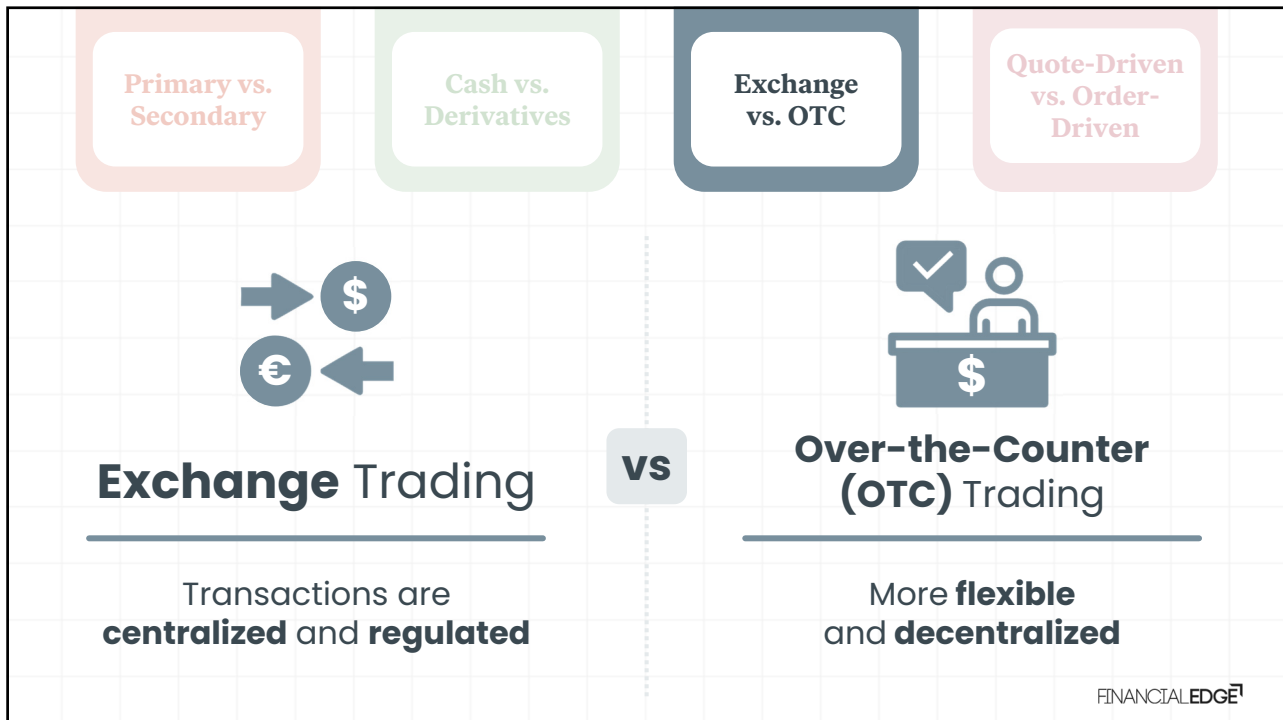
Exchange
vs. OTC

Quote-Driven
vs. Order-
Driven

What are the **different classifications** of financial markets?

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Primary vs. Secondary Market

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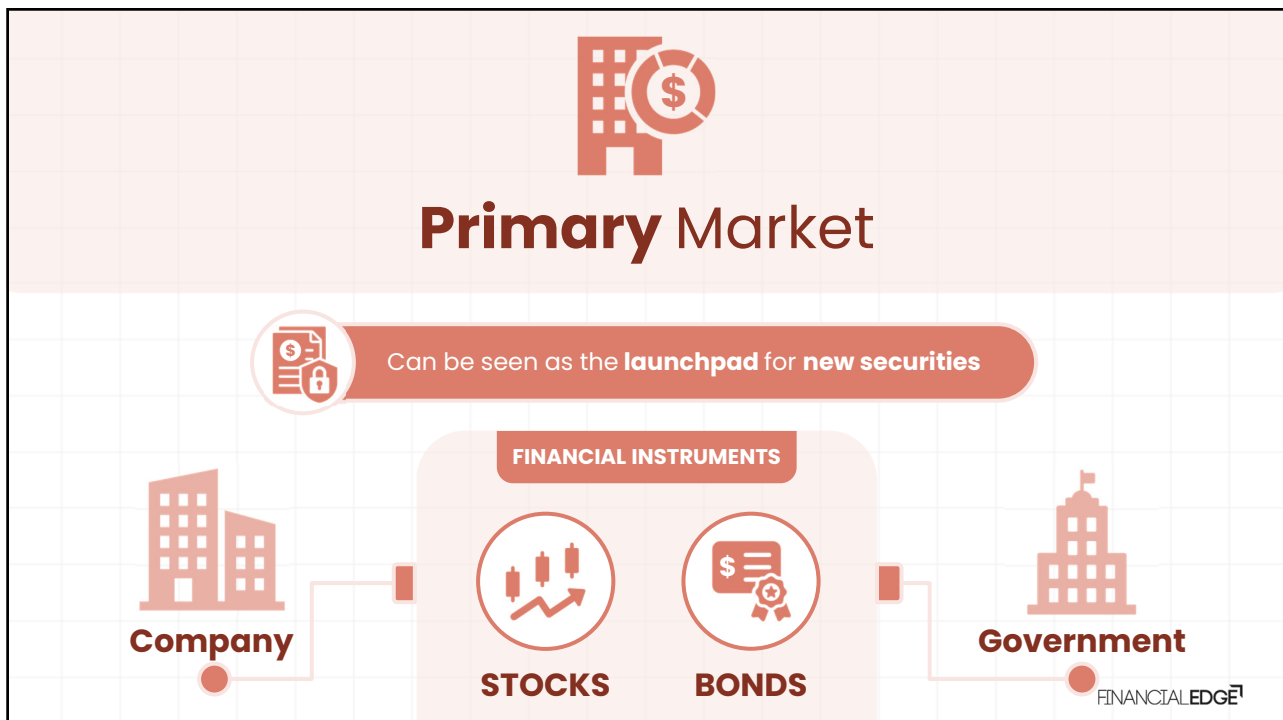
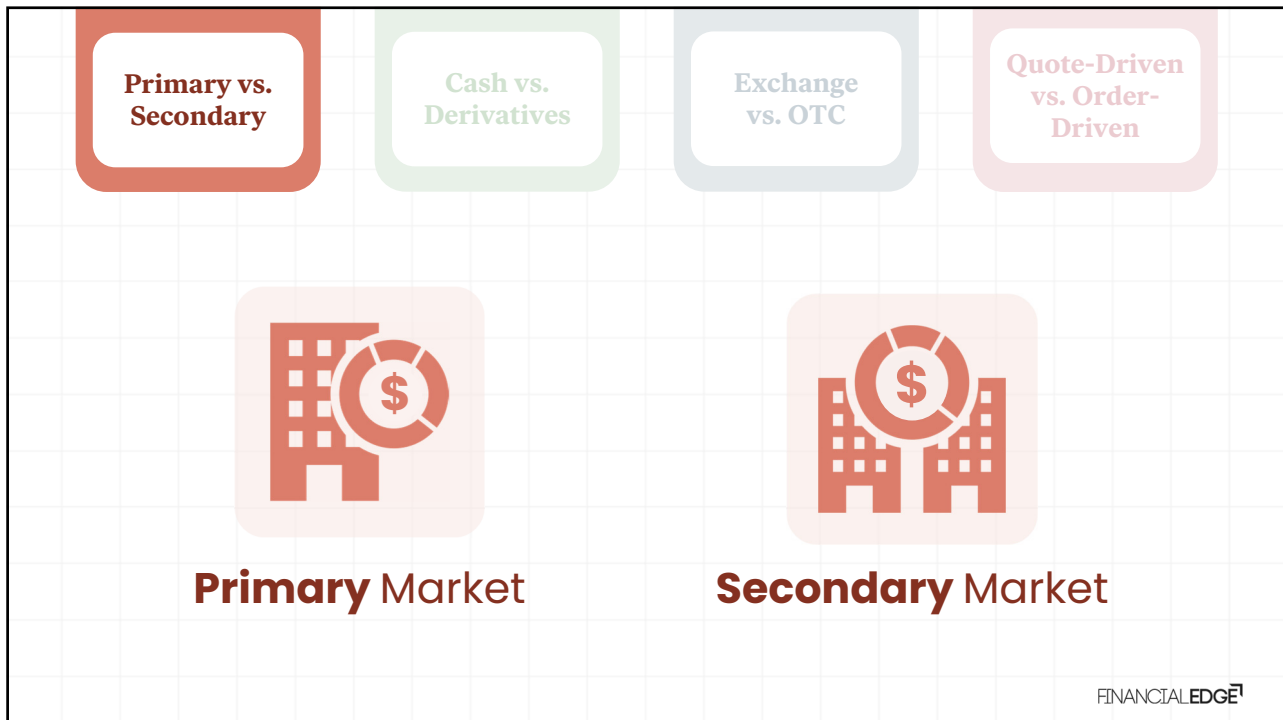
Primary vs.
Secondary

Cash vs.
Derivatives

Exchange
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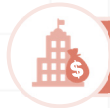
Quote-Driven
vs. Order-
Driven

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Primary Market



Enables **entities** to gather **fresh capital**



A company
initiates an **IPO**



Investors take a
stake in its journey

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Primary Market



Enables **entities** to gather **fresh capital**

Group of Underwriters



- Setting the **debut price**
- Orchestrating the **sale**
- **New securities** make a grand entrance

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Primary Market



Access to this market is **dominated** by **institutional investors**

Pricing



Issuers and underwriters



Gauging **demand** and **potential**



To set initial **value of securities**

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Primary vs. Secondary

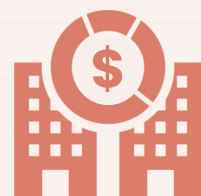
Cash vs. Derivatives

Exchange vs. OTC

Quote-Driven vs. Order-Driven



Primary Market



Secondary Market

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Secondary Market



Doesn't involve the **issuers** directly but serves as a **stage** where **securities change hands**

Offer **liquidity**



Investors



Buy



Sell

Facilitated by



Exchanges



OTC platforms

Over-the-Counter

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Secondary Market



Welcomes a broader audience including **institutional** and **individual investors**



Supply and demand



Influenced by **company performance**



Prices



Market sentiment



Overarching economic conditions

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Primary Market



Launchpad for
new securities



Allows entities to
bolster capital



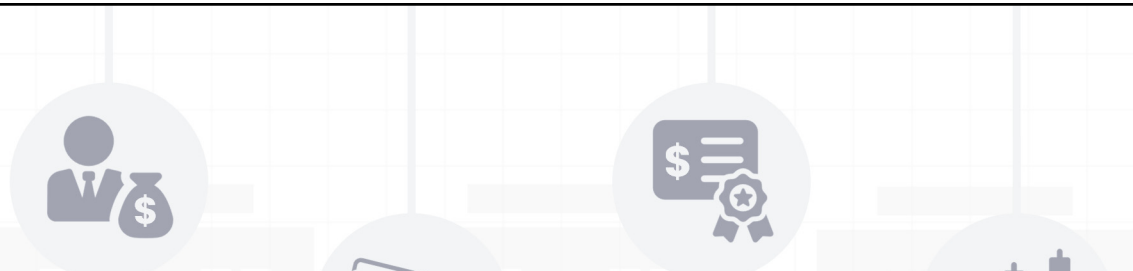
Secondary Market



Continued worth

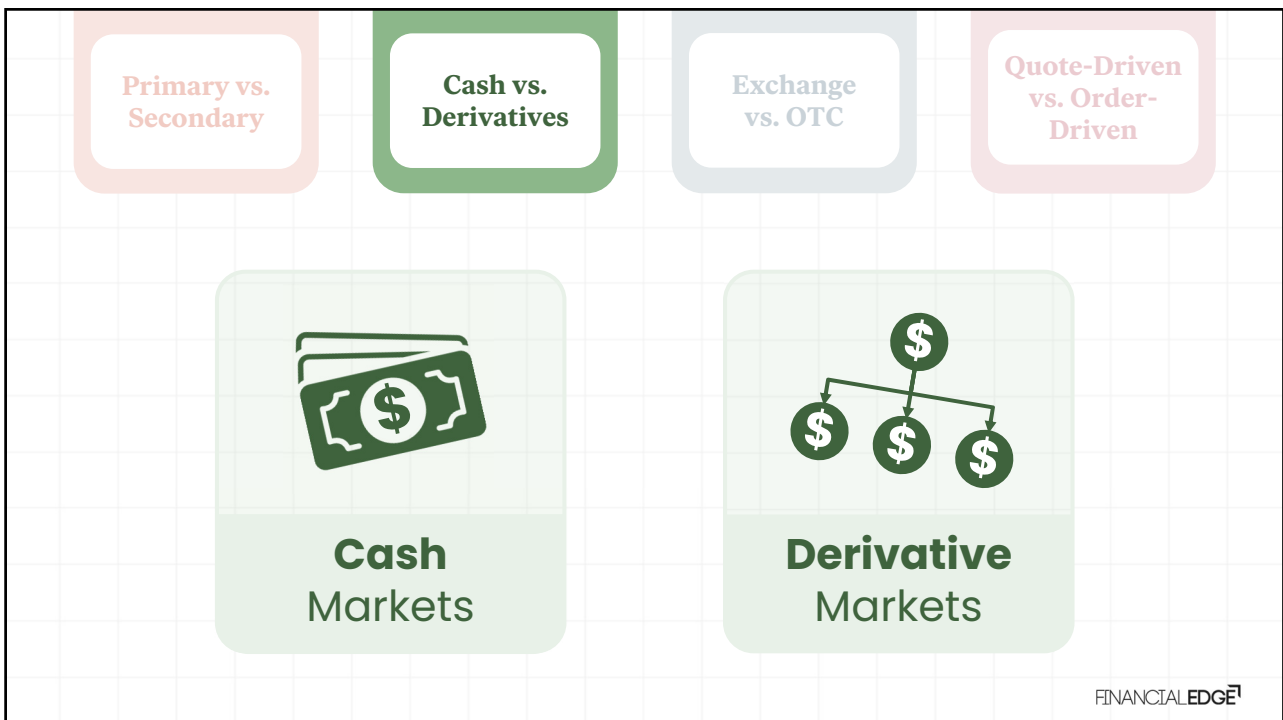


Fluidity

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Cash vs. Derivatives Market

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Cash Markets

The **bustling heart** of commerce, where **transactions** are **immediate**

Securities, currencies & commodities

'ON THE SPOT'

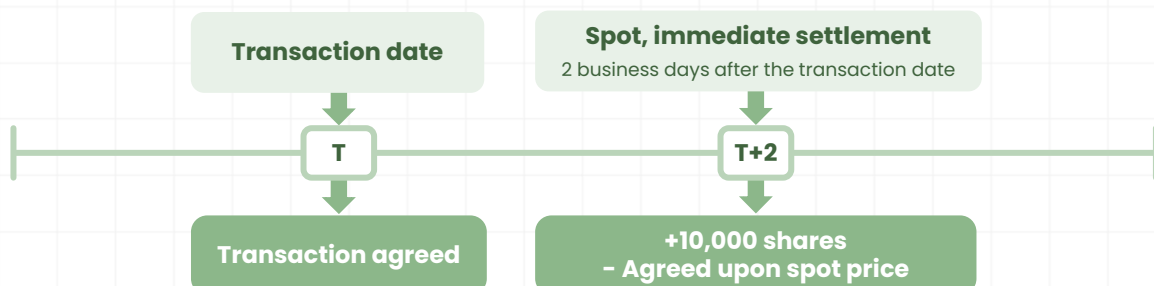


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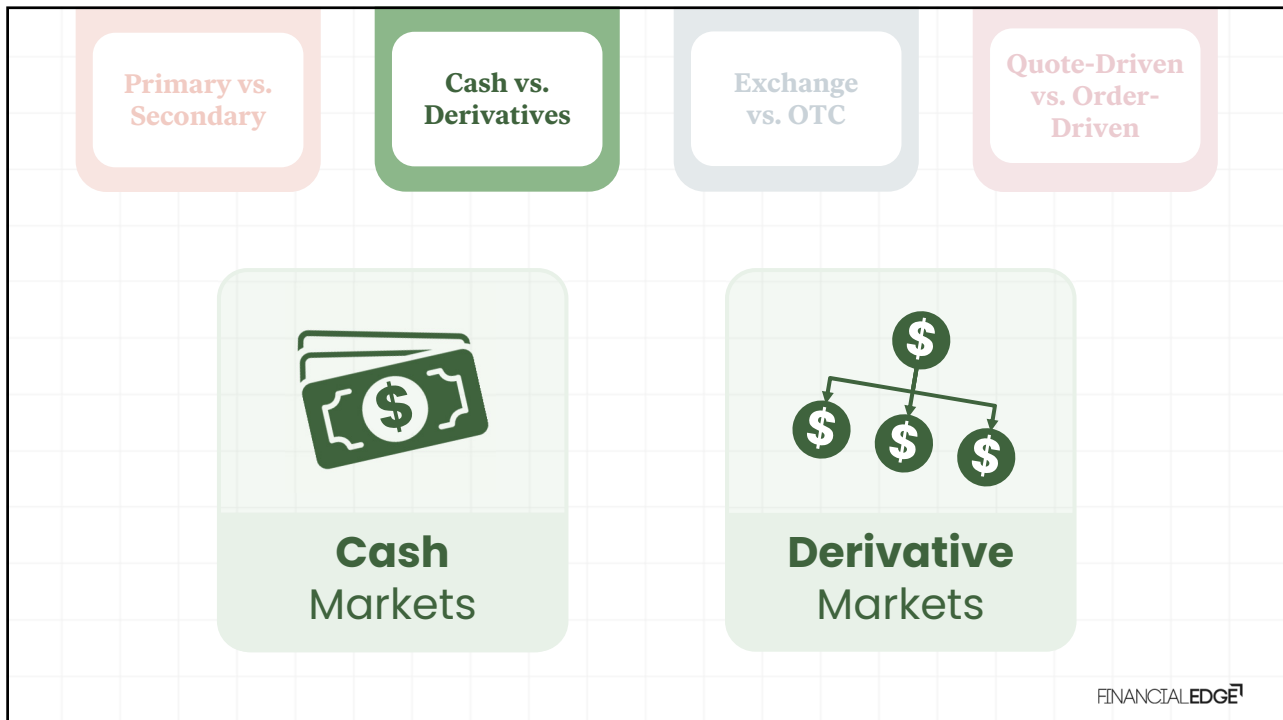


Cash Markets

A trader buys **10,000 shares** on the stock exchange which has a **T+2 settlement convention**



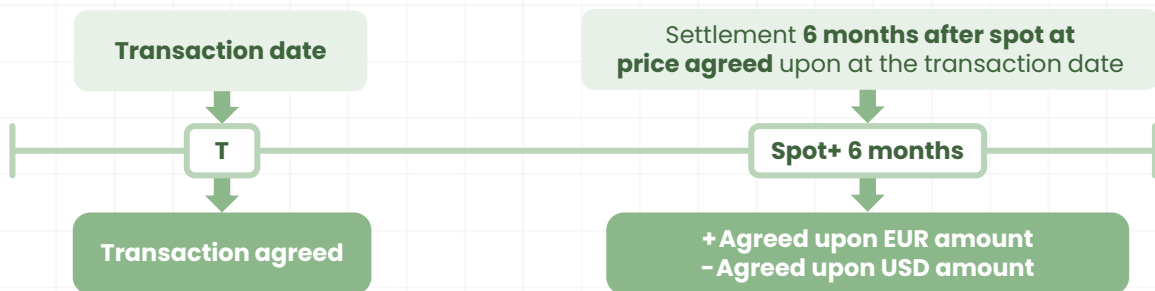
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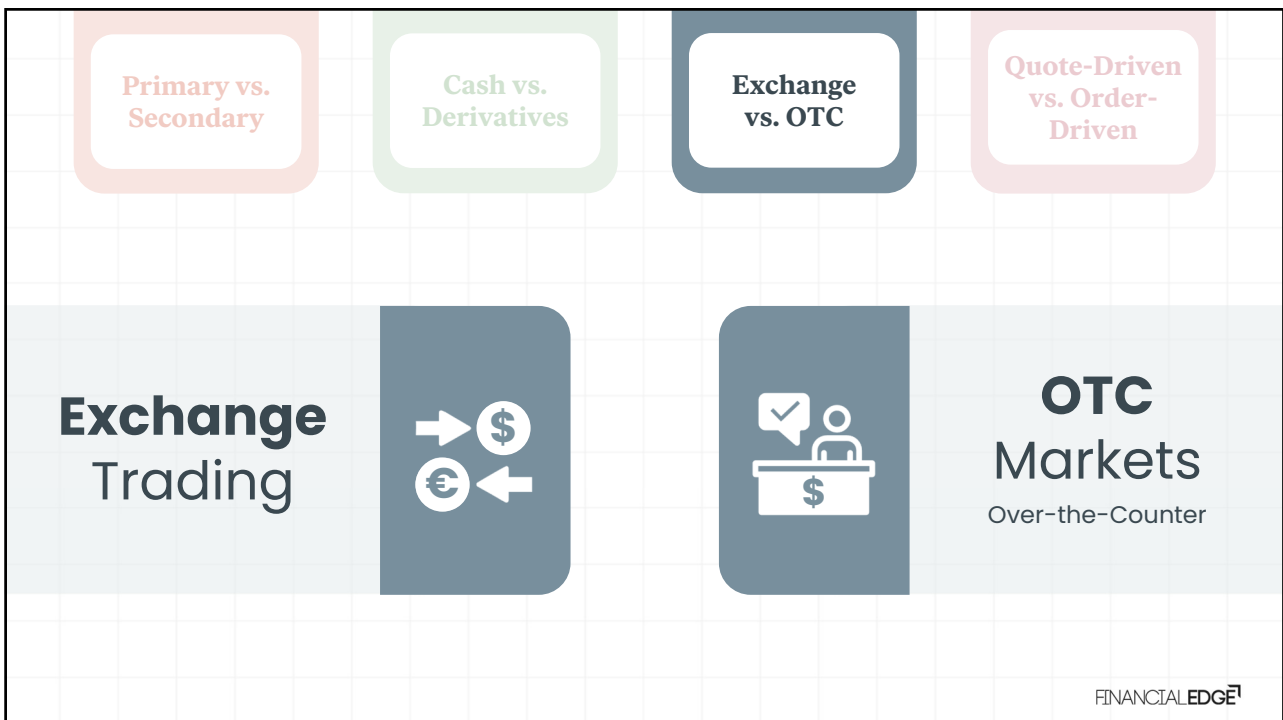
Derivative Markets

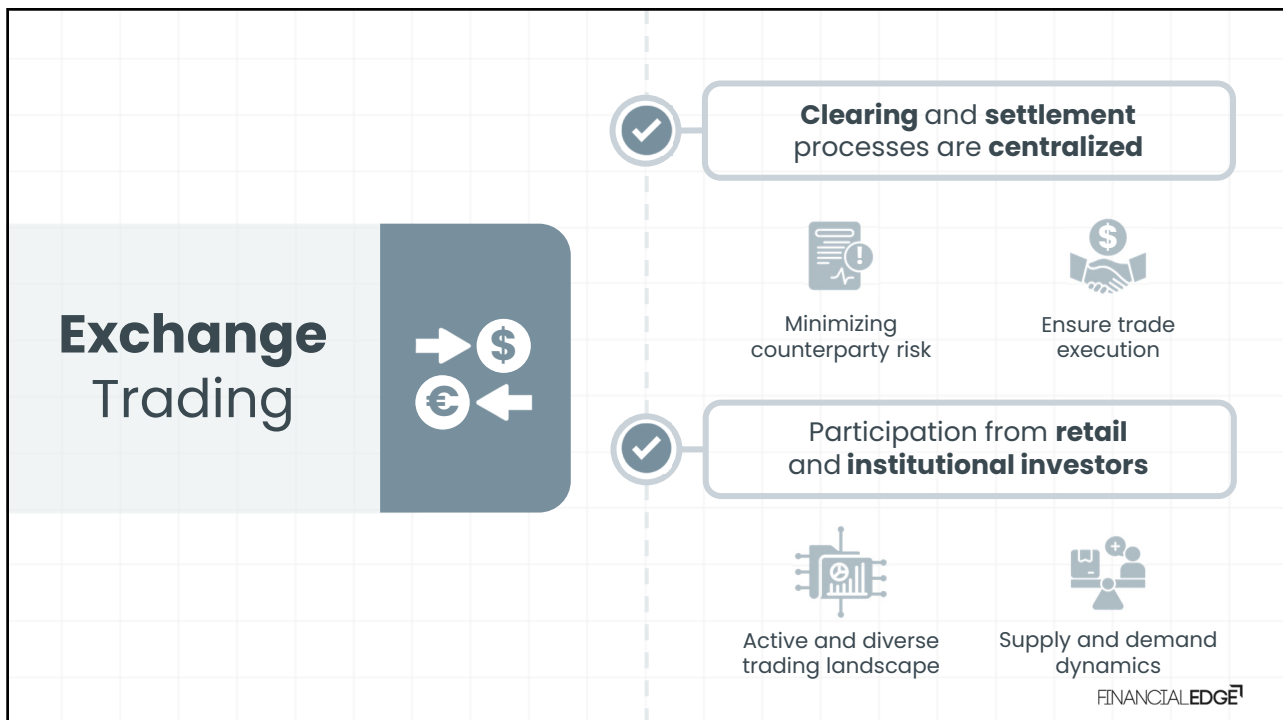
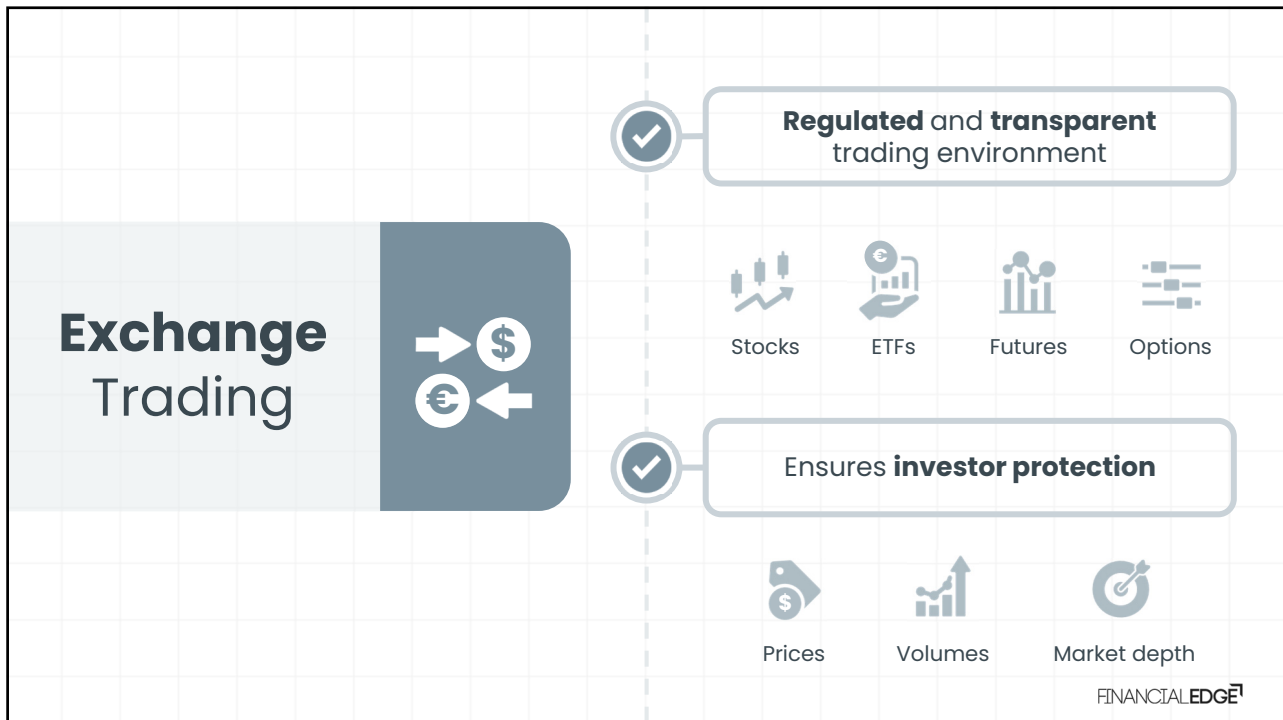
A trader buys **EURUSD 6M forward**. The price is **agreed today, settlement 6M after spot**

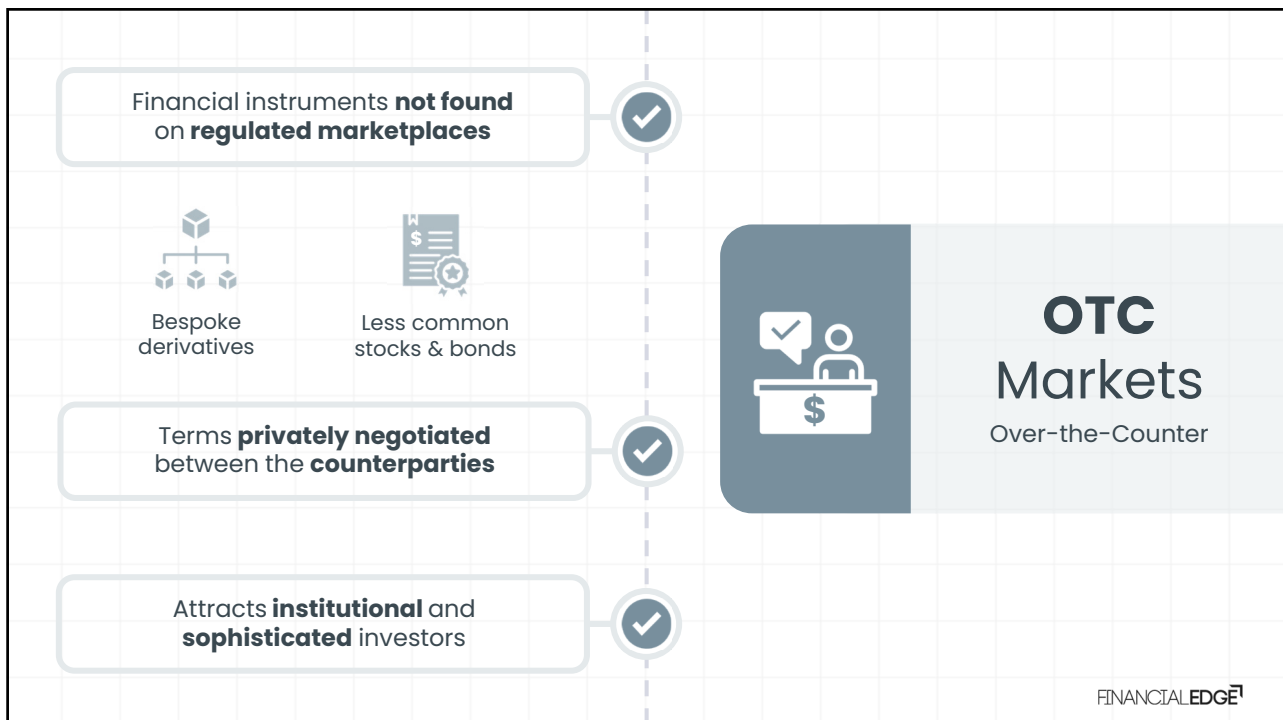
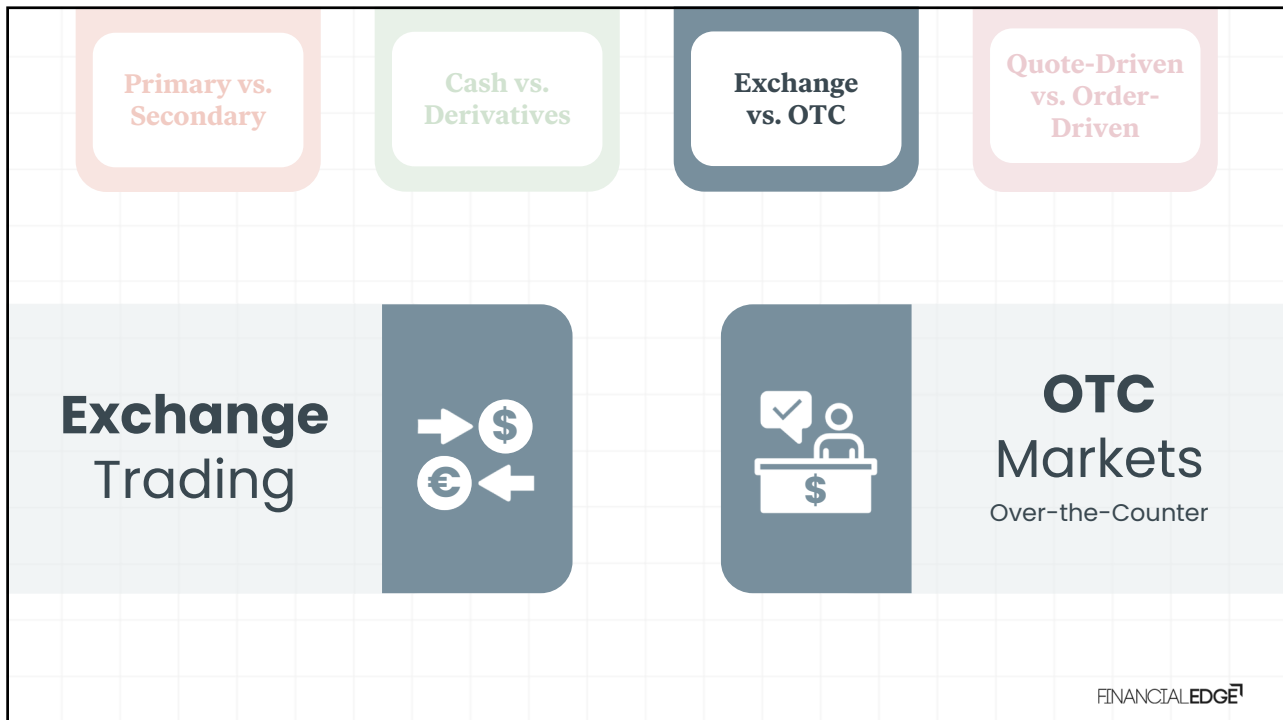
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Exchange Traded vs. OTC Market

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Electronic Communication Networks (ECNs)

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**Exchange
Traded**

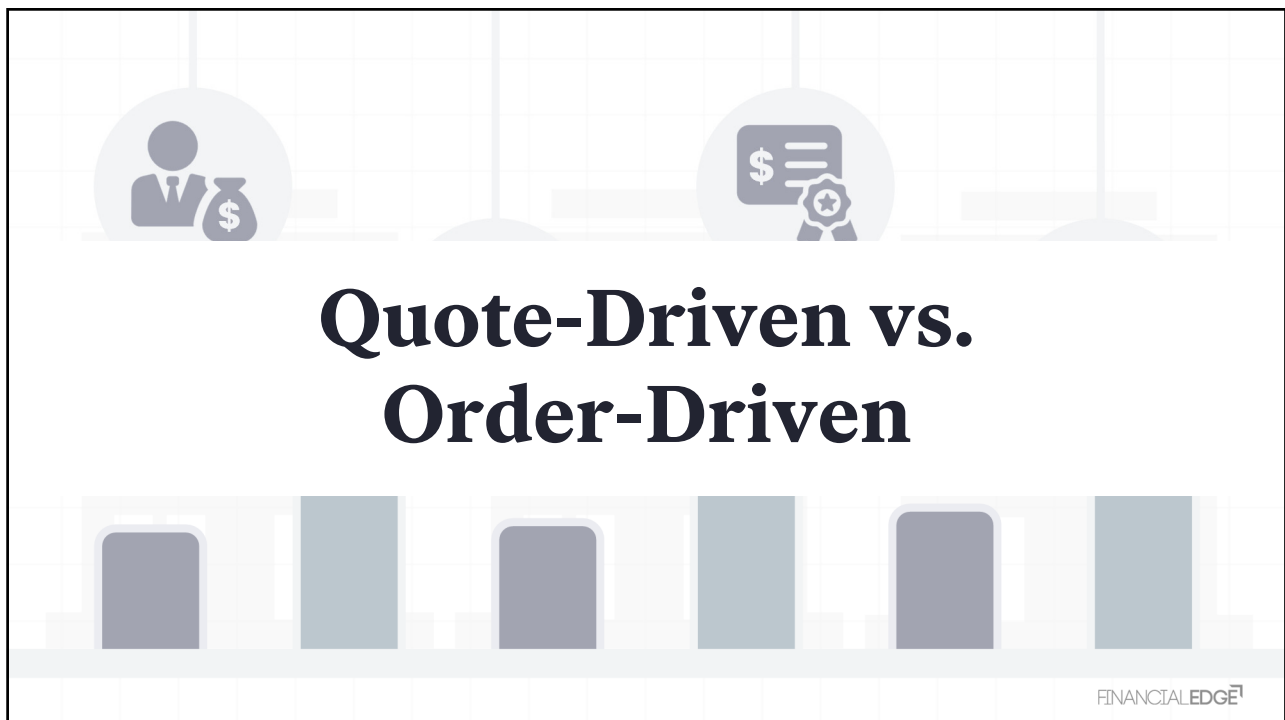
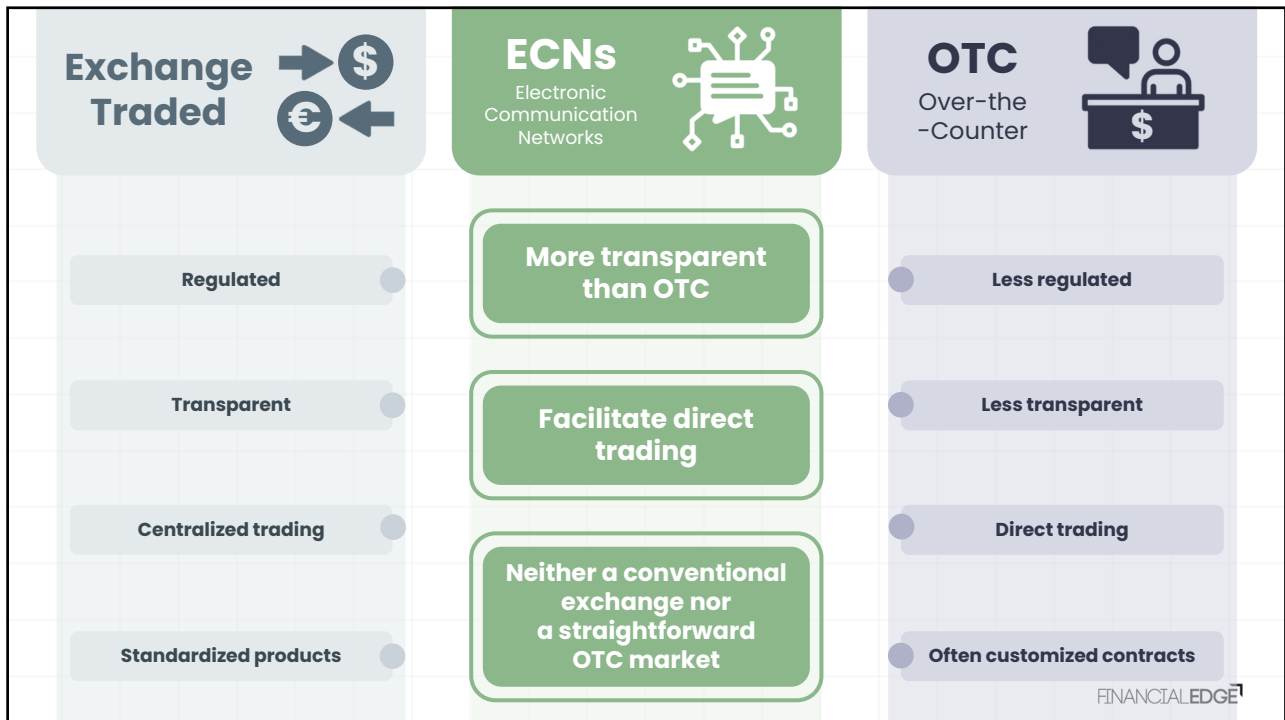


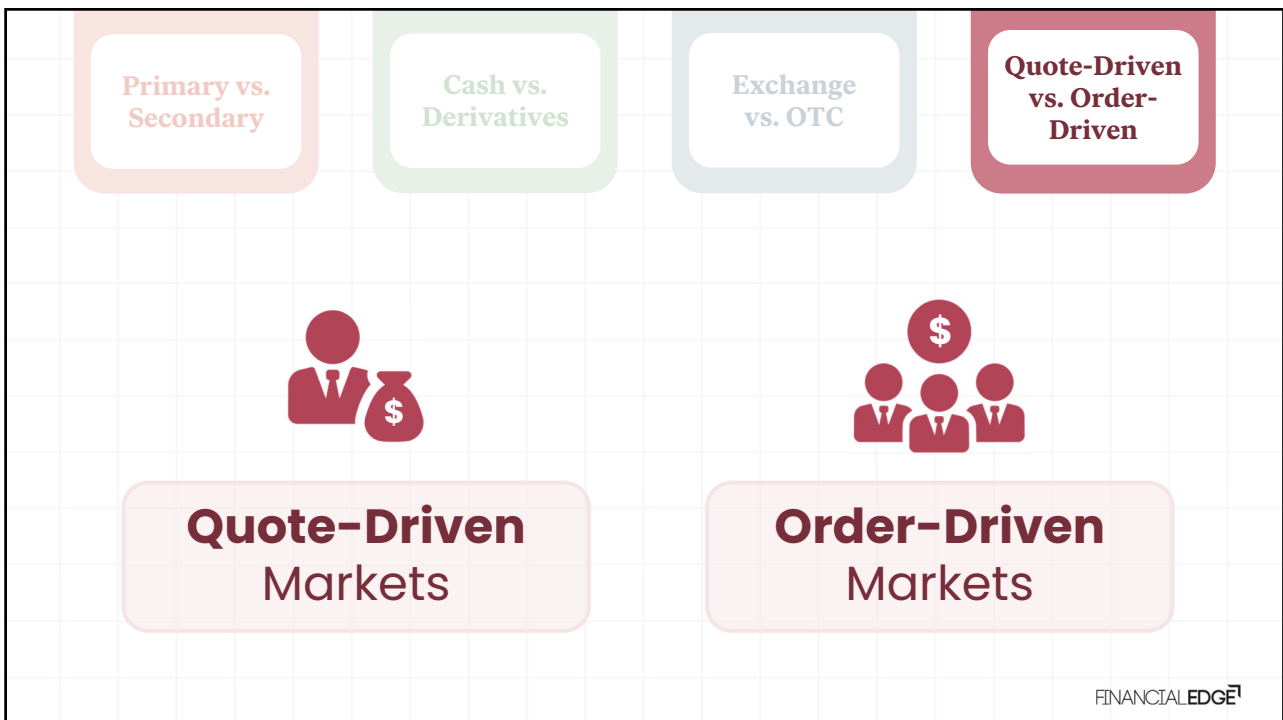
ECNs
Electronic
Communication
Networks



OTC
Over-the-
Counter

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Quote-Driven Markets

Provide liquidity by **quoting executable bid and ask prices** for financial instruments



OTC markets operate as **quote-driven** markets



Market makers play **crucial** role



Ready to **buy** and **sell at any time**



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Primary vs.
Secondary

Cash vs.
Derivatives

Exchange
vs. OTC

Quote-Driven
vs. Order-
Driven

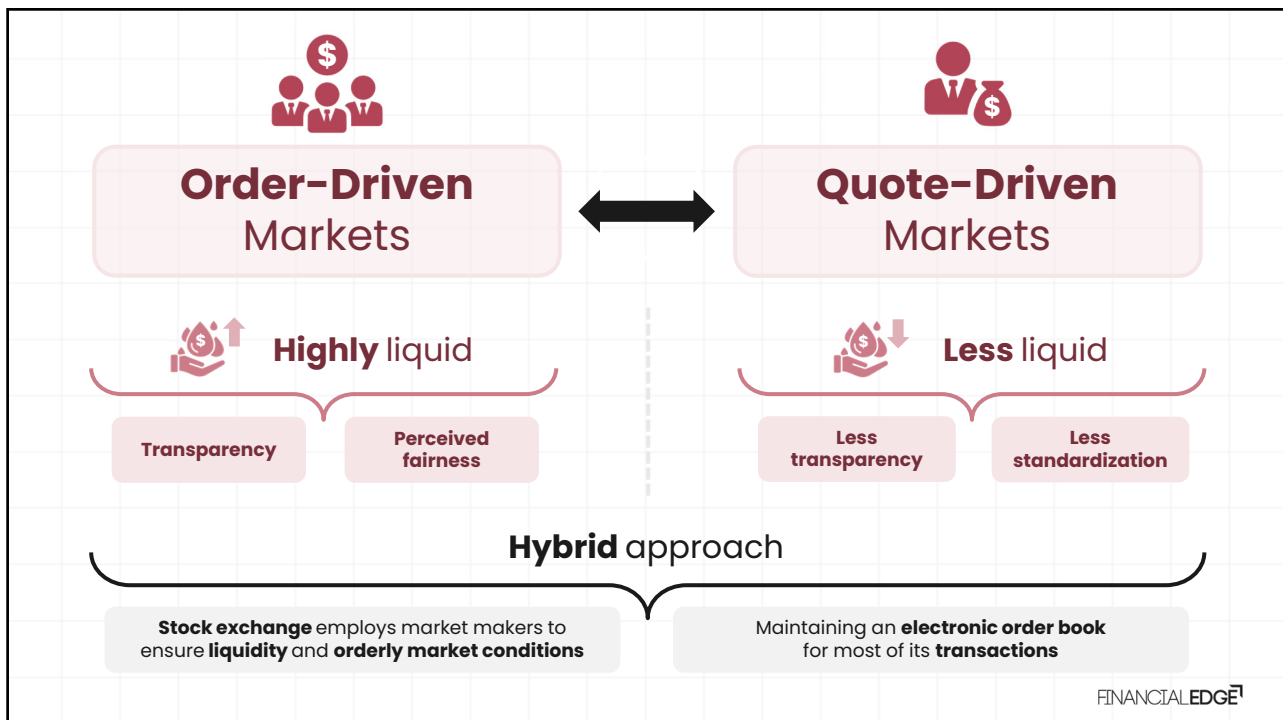
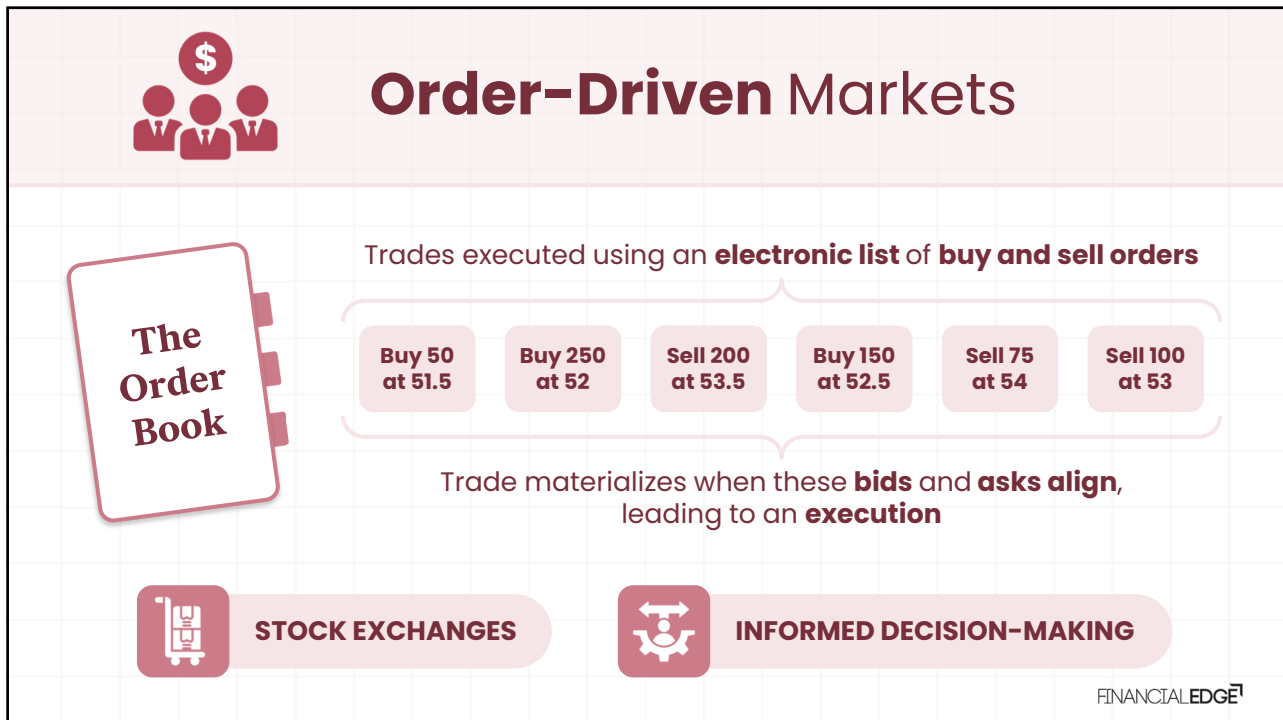


**Quote-Driven
Markets**



**Order-Driven
Markets**

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The Order Book

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The Order Book



Essential tool in financial markets

Compiling all **buy and sell orders**
for a particular financial instrument

**Stocks****Bonds****Derivatives**FINANCIALEDGE⁷

Example

Nestle SA		
BID		
Orders	Bid size	Bid
40	3,560	98.23
21	2,177	98.22
25	3,213	98.21
13	2,567	98.20
17	1,543	98.19
9	851	98.18

Last: 98.22 -0.03/-0.03%		
ASK		
Ask	Ask size	Orders
98.25	1,420	34
98.26	17	38
98.27	17	41
98.28	2,430	32
98.29	2,225	17
98.30	3,115	17

LEVEL 1 DATA
Top of the order book

LEVEL 2 DATA

Prices as of 17/01/2024

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The Order Book



Price Discovery Process

Supply (sell orders)

Demand (buy orders)

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The Order Book



Analyze Market / Price

Concentration of **sell orders** at a **certain price**

May suggest a **resistance level**

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The Order Book



Market's Depth

Capacity to **handle substantial orders** without affecting the price

"Deep" if there is **substantial volume of orders** at proximate levels

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Market Price Quotation

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Whether we are navigating...



**Exchange
Traded Platforms**



ECNs



**OTC
Markets**

The principles of **market price quotation** remain **consistent**

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Market Price Quotation



Last Price



Bid Price



Ask Price



Mid-Price

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Nestle SA

98.23

Last
10:52:33

98.23

Bid

98.25

Ask

3,560

Bid size

1,420

Ask size

EURUSD

1.0874

Last
10:52:57

1.0873

Bid

1.0874

Ask

25M

Bid size

25M

Ask size

Prices as of 17/01/2024

Last Price

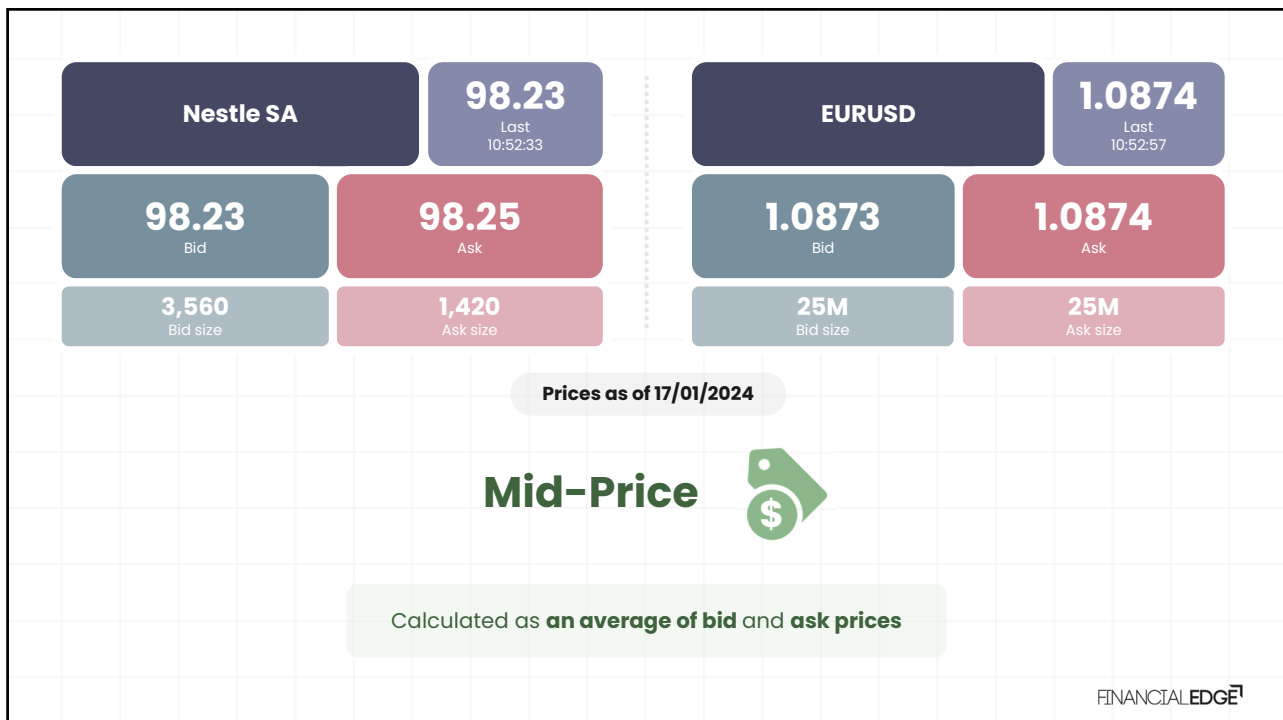
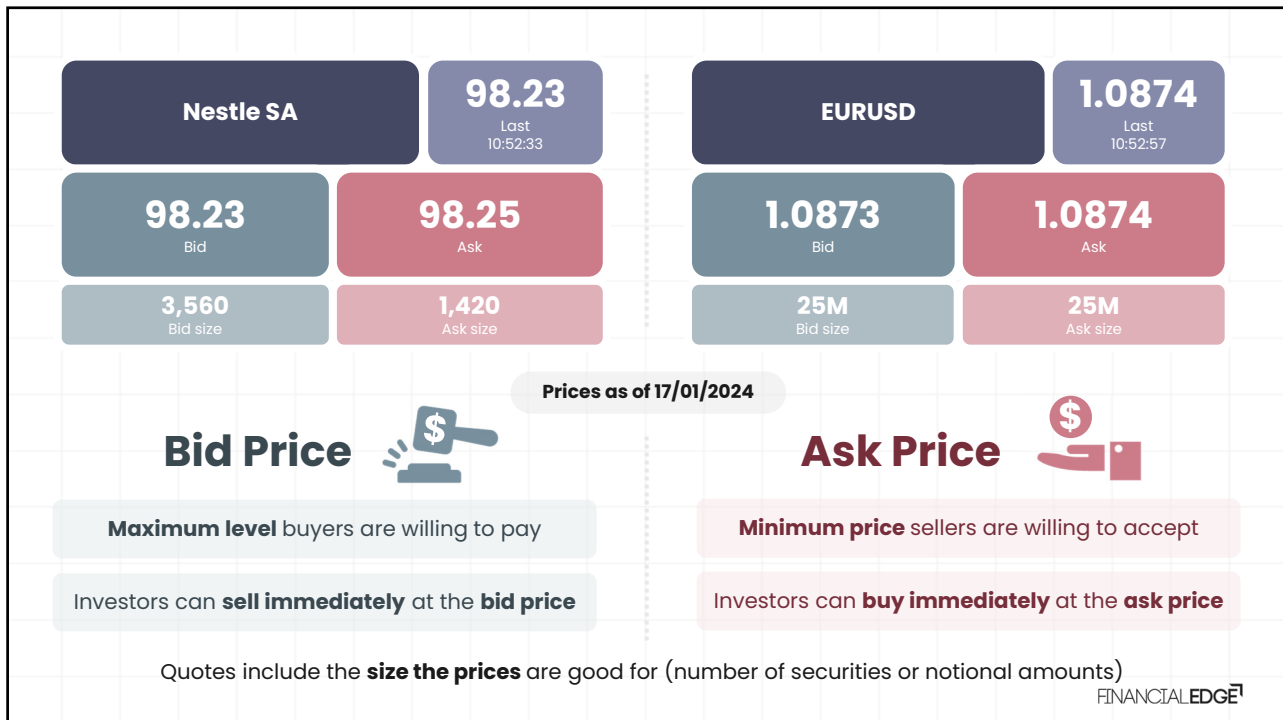


The last price is the price at which the **latest trade was agreed**

Constantly changing last price is indicative of a **highly liquid market**

Contributes to the **historical price data**

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Trading Costs

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Understanding the **true cost** of an **investment**



Calculating the **expected return**



**Market
price**

Financial instrument

+



**Trading
costs**

Comprehensive assessment

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Market Price

Price a **financial instrument** is **traded** in the market



Supply and **demand** dynamics



Economic indicators



Prevailing **market sentiment**



Trading Costs

Expenses incurred during the **buying** and **selling** of financial instruments



Explicit
costs



Implicit
costs

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Explicit costs



Implicit costs

Costs that are **directly observable** and are usually **disclosed upfront**



Broker Commissions

Charged by brokerage firms for **executing trades**



Exchange Fees

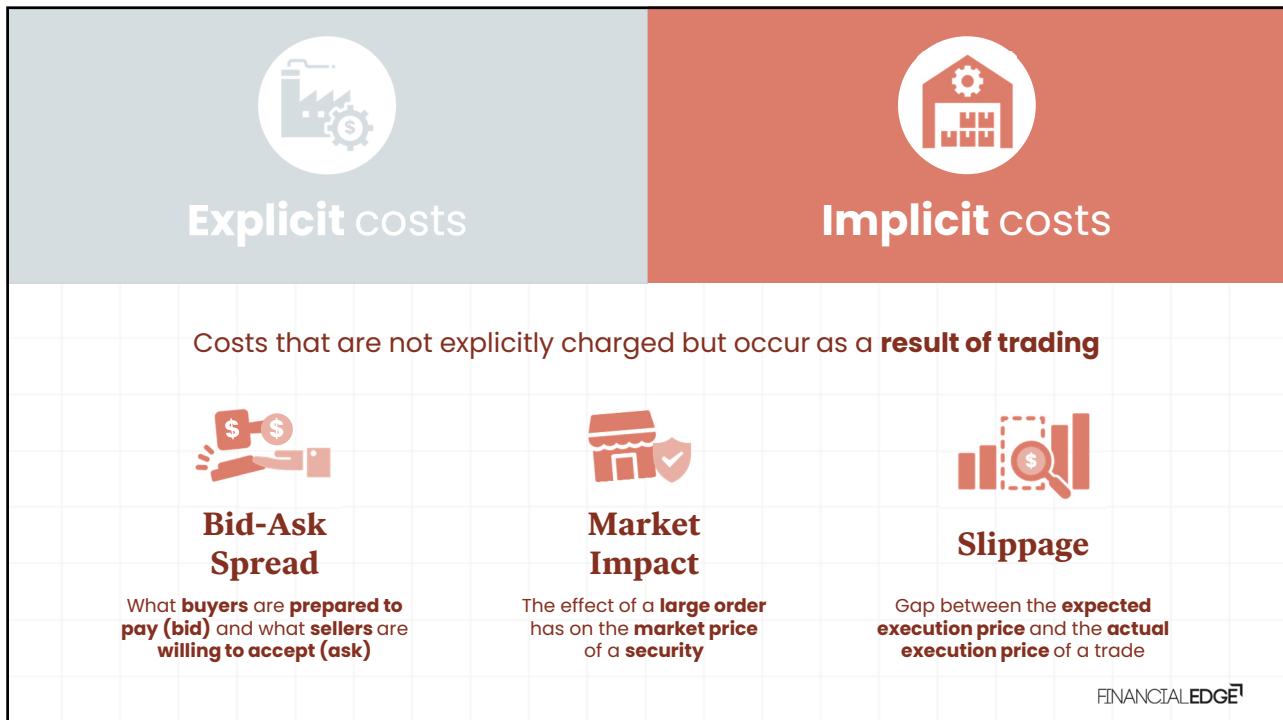
Incurred for using the **infrastructure** of an **exchange**



Regulatory Fees & Taxes

Imposed by **government entities** or **regulatory bodies**

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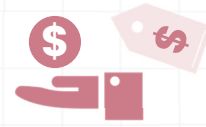
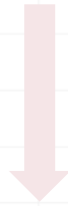


Bid-Ask Spread



Bid

The price a **buyer** is **willing to pay**



Ask

Lowest price a **seller** is **willing to accept**

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Main Drivers of the Bid-Ask Spread



Liquidity

HIGH ↑**Narrower** spread**LOW** ↓**Wider** spread

Volatility

Wider spread**Narrower** spread

Market Maker Competition

Narrower spread**Wider** spreadFINANCIALEDGE⁷

Bid-ask spreads for the same financial instrument can vary over time:



Time of Day

Peak hours:
Spreads may **narrow**

Off-peak hours:
Spreads may **widen**



Calendar Effects

Times of the year:
Holiday season

Wider spreads: General
decrease in market activity



Pre-Data Release Periods

Spreads may widen in
anticipation of potential
**market movements and
increased volatility**

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Markets

NARROW SPREADS



Cost-effective entries and exits



Active trading approach

WIDER SPREADS



Cautious trading approach



Higher costs - opening
and closing of positions

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Long vs. Short Positions

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L Long

Going long on an asset implies **purchasing it with the anticipation of a price increase**



Profit

Asset's **price rises** post-purchase

Sale at a **higher price**



Risk

Loss if sold at a **lower price**

Loss is **capped**



Ownership Benefits

STOCKS

Grant **dividends**

Voting rights

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S Short

An investor who has **sold a security before having bought** it is said to be short



Profit

Spread between
sale and **repurchase** prices



Risk

Price increase –
repurchase at a higher price

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