CHAPTER I

INTRODUCTION

Topic : Technical Analysis Strategies on XAUUSD (Gold/ US Dollar) Trading for Profitability in the FOREX Market

1.1 Background

The financial markets have always attracted investors from all over the world (Bech, 2012). One the financial markets that have shown a significant growth over the last few decades are the foreign exchange market. The foreign exchange market, or also known as FX or FOREX is a marketplace for the activity of exchanging national currencies against one another, whether it is for the purpose of trading, commerce, or tourism. It has become the largest and also the most liquid financial market in the world due to its worldwide reach of trade and finance (Chen, 2020). In 2013, the Bank for International Settlements has also reported that the daily trading activity volume in the foreign exchange market had amounted to an average of $5 trillion (Investopedia, 2020). The foreign exchange (FOREX) market has attracted many individuals as the market is available for any trader to conduct the trading activity by opening an account in a brokerage company (Kermanshahi, 2014). Even

with a small balance account, any individual can trade in the foreign exchange (FOREX) market. One of the platforms that were made with the development of technologies to be used for foreign exchange trading is Meta Trader 4. This platform enables individuals to analyze the financial markets and perform trading activities. It also provides the traders with various analytical opportunities.

Due to the fluctuating prices in the market, it can be extremely difficult to predict the future prices and movement. However, the traders can use different methods of strategies to analyze the foreign exchange market. The first method is the technical analysis; where traders would observe the price movement patterns and will then determine the entry and exit points. The trends and patterns itself will become the trader's signals without having to be concerned on the reason why the movement happens. The second method is the fundamental analysis; which involves observing the economic well-being of a country and its currency. The trader will analyze the inflation rate of a country, GDP, growth in employment, trade balance, and many others to determine the strength of a certain currency. The final method is the market trend analysis, which combines both the technical and fundamental analysis. By using Meta Trader 4 and 5 as the platform for trading, traders can first test out different methods and strategies on a demo trading account and observe which they most prefer in obtaining the best profitability before conducting the live trading activity on the real account.

Based on the theory explained above, the researcher conducted a study with the title *"Technical Analysis Strategies on XAUUSD (Gold/ US Dollar) Trading for Profitability in the Foreign Exchange (FOREX) Market"*.

1.2 Problem Statement

1.2.1 Research Questions

1. To what extent does the volatility of XAU/USD have on its probability of success in the FOREX market?
2. What is the most suitable technical strategy to earn profitability in XAU/USD trading?

1.2.2 Objectives of the Research

1. To investigate the strength of technical analysis in forecasting the market trend and future price of XAU/USD in the FOREX market
2. To identify the most suitable strategy for obtaining maximum profitability in XAU/USD trading

1.3 Scope of the Research

The focus on this paper is to analyze the strength of the technical analysis which would be expected to lead into several interesting findings about the prediction of the future movement of XAU/USD (Gold vs. US Dollar) prices and which strategy will result in the probability of obtaining the most profit. The study will test the technical analysis in the period of 3 months. The platform used in this research is the Meta Trader 4 and Meta Trader 5, which supports different tools and indicators from the Trading View application. These technical indicators being used in the study include MACD (Moving Average Convergence Divergence), RSI (Relative Strength Index), and Bollinger Bands.

1.4 Benefits of the Research

1.4.1 Theoretical Benefits

Some significant and beneficial achievements that this study is expected to provide, whether it is for students or teachers, is to enhance the knowledge about trading XAU/USD in the Foreign Exchange (FOREX) market. In addition, the study also expects the readers to gain as much knowledge on technical analysis, such as

how it can be used to analyze the market trend and forecast the movement of price which would be useful for short-term trading in the FOREX market.

1.4.2 Practical Benefits

The practical benefits of this study are to give insight on online trading, specifically using the Meta Trader 4 and Meta Trader 5 platform by conducting technical analysis. This study hopes to help individuals achieve the goals of maximizing the profit through systematic trading steps by an automated trading system. It is important to know that trading in the Foreign Exchange (FOREX) market is a very risky business. Therefore, this study is designed to offer individuals who are interested in trading to find as much information needed before entering the real market.

1.5 Organization of the Paper

The following shows how the research is organized:

1.5.1 Chapter I – Introduction

This chapter includes the foundation on the writer's research, which includes the background and brief introduction about trading in the FOREX market, formulation of the problems (problem statement), which is divided into the research questions and the objectives of the research, also techniques of data collection in brief, and lastly, the organization of the paper.

1.5.2 Chapter II – Literature Review

In this chapter of literature review, the writer provides knowledge and information from all aspects all over the world related to the topic. It explains about the FOREX market in detail. The purpose is to maintain both the writer's validity and reliability to conduct the research.

1.5.3 Chapter III – Research Methodology

In this chapter, the data for the research is explained in more detail. It includes the type of research being stated, data collection method, and data analysis used in the study. Every data to support the study by the researcher are collected and then analyzed in this chapter.

1.5.4 Chapter IV – Analysis of Data

This chapter explores the data analysis and discoveries of the study. The discoveries will include the patterns and relationship that have been supported by the data from the previous chapter. The writer will transform all relevant data that were collected previously to a table where the results are presented clearly and are easy to understand.

1.5.5 Chapter V – Conclusion

This chapter is the very end of the thesis which includes the summary of the study, a clear explanation of the answers to the question of the research. In addition, the writer also gives lists of recommendations for future studies relating to the topic.