

Currency Index

Introduction

The Currency Index indicator computes an “index” using an un-weighted geometric mean of several currency pairs. This is similar to the US Dollar Index (USDIX) and FXCM’s USDOLLAR. However, it does this, not just for the USD, but for 7 other currencies too. That’s 8 major currencies in total: USD, EUR, GBP, CHF, JPY, AUD, CAD and NZD.

The “index” is computed for one currency at a time, which requires 7 currency pairs. For example, to compute the “USD index” it uses EUR/USD, GBP/USD, USD/CHF, USD/JPY, AUD/USD, USD/CAD and NZD/USD.

The “index” is normalized so that it has a nominal value of 10000 on 1/1/2011; this is similar to FXCM’s USDOLLAR.

Installation

Please use the provided installer.

This software is for MarketScope 2.0 charting/trading application. There are no special hardware or software requirements. If your PC will run the MarketScope 2.0 software then you should be good to go. A good performance internet connection is recommended.

VERY IMPORTANT NOTE:

Each of the 8 currency indices is calculated from 7 currency pairs. If all 8 indices are required, this means 28 currency pairs in order to perform the calculations. In order to use the indicator you must “subscribe” to all of the required currency pairs in the TradingStation platform.

However, please note that by default FXCM’s MarketScope has a 20 symbol limit. This limit is arbitrary, and if you contact your FXCM support desk they should be able to remove this limit, allowing you to subscribe to all currency pairs offered by FXCM.

The full list of currency pairs required to compute the indices for USD, EUR, GBP, CHF, JPY, AUD, CAD and NZD are:

EUR/USD, GBP/USD, USD/CHF, USD/JPY, AUD/USD, USD/CAD, EUR/GBP, EUR/CHF, EUR/JPY, EUR/AUD, EUR/CAD, GBP/CHF, GBP/JPY, GBP/AUD, GBP/CAD, CHF/JPY, AUD/CHF, CAD/CHF, AUD/JPY, CAD/JPY, AUD/CAD, NZD/USD, EUR/NZD, GBP/NZD, NZD/CHF, NZD/JPY, AUD/NZD and NZD/CAD.

This indicator also supports a “Lite” version, which only computes the currency indices for USD, EUR, GBP, JPY and AUD. This only requires 10 currency pairs, which are:

EUR/USD, GBP/USD, USD/JPY, AUD/USD, EUR/GBP, EUR/JPY, EUR/AUD, GBP/JPY, GBP/AUD and AUD/JPY.

Since only 10 pairs are required, the “Lite” version can be used in case it is not possible to subscribe to the full list of 28 currency pairs.

This indicator also supports additional “Lite+” versions: “Lite + CHF”, “Lite + CAD” and, “Lite + NZD”. Since 6 base currencies are supported, 15 currency pairs are required. The additional currency pairs are the additional crosses of the 5 basic “Lite” mode currencies with the extra currency.

If you are not subscribed to all of the required currency pairs, then you will get an error message when adding the Currency Index indicator to a chart. If you see the error message (e.g. see Figure 1), then re-check that you have all the required currency pairs subscribed to your TradingStation platform, and try again.



Figure 1 : Example error message for missing instruments

User Guide

Add the indicator to a chart, and select the required currency index. The indicator takes a few seconds to load to the currency pairs required for the calculation of the “index”.

The resulting “index” can be treated as a synthetic instrument (although only close prices are available, there is no high or low). You can perform the majority of standard technical analysis techniques with it, including drawing trend lines, marking support / resistance, etc. as well as using technical indicators such as moving averages, RSI, Bollinger Bands and many others.

Input Parameters

Calculation Parameters

Calculation parameters	
Currency	USD
Price type	Close
Version	Full

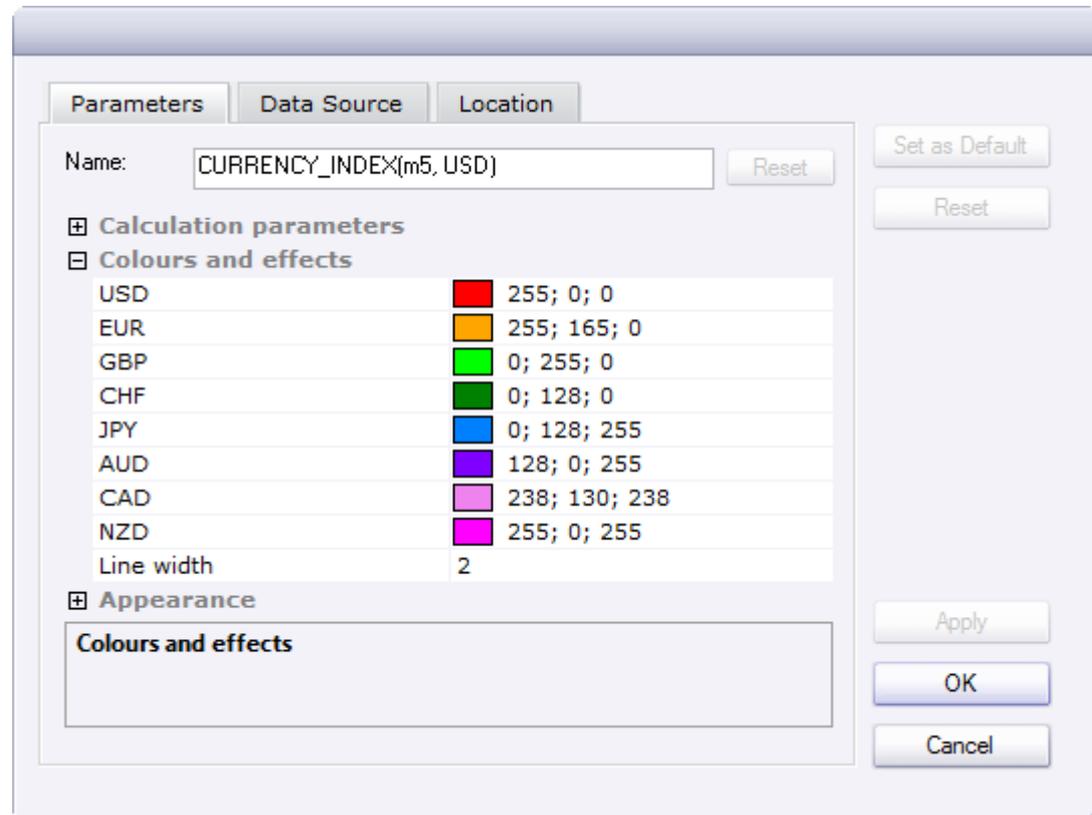
Currency: The currency for which you want to compute the index. This can be USD, EUR, GBP, CHF, JPY, AUD, CAD or NZD.

NOTE: The indicator might not be able to compute some currency indices due to limitations of the “Version” parameter (e.g. in “Lite” mode CHF, CAD and NZD are not available).

Price type: This can be Close, Median or Typical. This configures which price data is to be used for the computation. The default is to use “close” prices, however “median” or “typical” might also give useful results.

Version: This can be Full or Lite. The Lite version only computes the indices for USD, EUR, GBP, JPY and AUD. The Lite version requires fewer currency pairs, and thus might be useful where it is not possible to subscribe to the 28 currency pairs required by the Full version. The indicator also supports “Lite + CHF”, “Lite + CAD” and, “Lite + NZD”.

Colours and Effects



USD/EUR/GBP/etc.: Specify the colours for the USD, EUR, GBP, etc.

Line width: This is the width of the line.

Screenshots



Figure 2 : "EUR index" and "USD index"

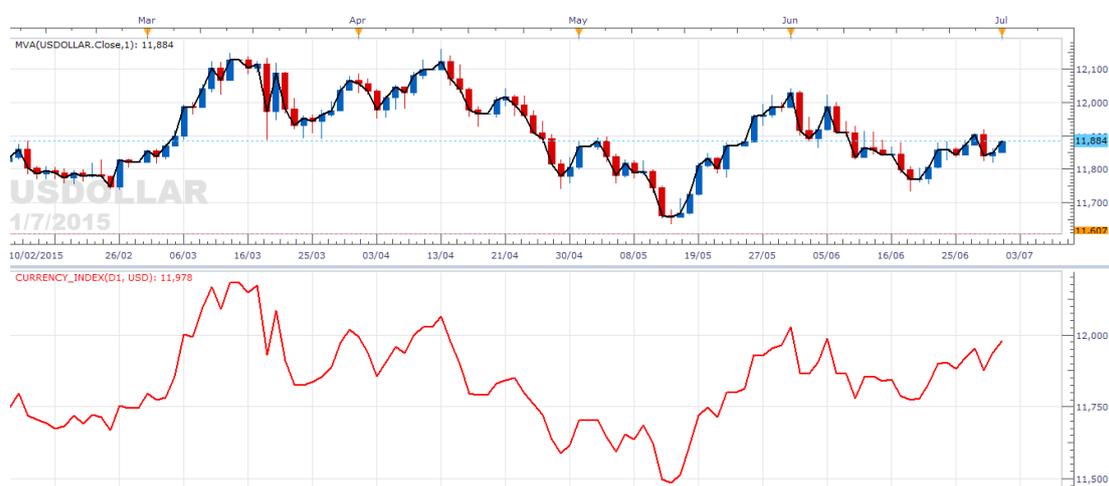


Figure 3 : Comparison of USDOLLAR and "USD index"

Educational Links

The following links provide some good background information on currency indices and the formulae behind them:

- http://en.wikipedia.org/wiki/U.S._Dollar_Index
- <http://www.fxcm.co.uk/usdollar-dow-jones-fxcm-dollar-index-basket.jsp>
- http://en.wikipedia.org/wiki/Geometric_mean

Support

Should you have any problems with installation or use of this indicator, then please email sjcknsn@gmail.com with a description of your problem or query.

Risk Disclaimer

Trading Foreign Exchange (Forex), Contracts For Difference (CFDs), or other financial products, carries a high level of risk, and may not be suitable for all investors. Before deciding to invest you should carefully consider your investment objectives, level of experience, and risk appetite. The possibility exists that you could sustain a loss of some or all of your initial investment and therefore you should not invest money that you cannot afford to lose. You should be aware of all the risks associated with trading, and seek advice from an independent financial advisor if you have any doubts.

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