



UNIVERSITI TEKNOLOGI MARA

THE STUDY OF ECONOMIC, POLITICAL AND  
SOCIAL FACTORS THAT AFFECT ON CURRENCY  
EXCHANGE ESTIMATION:  
A STUDY ON GBP AGAINST USD

MOHAMMAD NUR AIMAN BIN AZAHARI

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Investment Management

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**Abstract**

The study is about the estimation of GBP/USD trend and economy, social and political factors. The aims of the study are to determine the relationship between the GBP/USD estimation trend price and economy, social and political factors for two countries, United Kingdom and United States. The sample of data is collected from World Data Bank from range of year 2000 to 2019. The variables used include the yearly quoted price, Gross Domestic Product (GDP), LIBOR benchmark, Broad Money (M3) and Canadian Dollar (CAD). The method used in this research is panel data. The expected findings is to seek the correlation as well as positive relationship. The contribution of study are very useful for traders especially in forex market to gain historical information and predicting future target.

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## **CHAPTER 1- INTRODUCTION**

Foreign Exchange (FX) or forex is one of the most famous financial instruments and have been used globally until now. According to World Bank Data, total of 280,000 forex retail traders were recorded in 2017 in United Kingdom. (Tommy w. and Saikat C. 2019) explained that an amount of \$6.6 trillion were recorded under FX trading in just a day in April 2019 in United States. Therefore, it is one of the most chosen investment platform to earn return despite of its never- ending speculation mainly about the legalization issue. Forex is more to daily trade and focuses on short-term (speculation) as it has a feature of swap which is the charge of holding the position overnight. But in this study, we will focus otherwise. Currency trading has been used up until now. Movement of the rate exchange changed everyday is where a lot of people take the benefits. Even the smallest issues can lead to a big movement and some of the people can say it is part of their culture. According to World Bank Data, total of 280,000 retail foreign exchange traders were recorded in 2017 in United Kingdom. (Tommy w. and Saikat C. 2019) explain that an amount of \$6.6 trillion currency trades were recorded in just a day in April 2019 in United States.

### **1.0 Background of the study**

Forex usually considered to be traded in short-term movement. Therefore, it is tend to be more volatile. (Rafik. O and Elery. J 2015) explained due to high volatility, some of the traders can successfully beat the market and some don't. (Eric E. 2017) said that an amount of 20% existing retail traders had closed their account due to Margin Call or MC. It is a situation where traders lost everything including his balance and deposit due to the insufficient leverage to hold the account. (Eric. E, 2017). These are the risks that traders should face in forex. Since it is divided by two technical analysis and fundamental analysis, rather than focusing on the technical, fundamental is important tools used to capture the movement of the market for both short-term and long-term movement.

(Alberto H and Gabriel R, 2013) explained that due to high volatility and volume traded, a small movement of the price can lead to big or major loss. In other words, forex offers higher profit but higher in risk as well. A lot of risks, one is the spread can be as high as you can imagine it would be. (Pan H. 2012). Second, its related to the news and it comes to the behaviour of big traders toward the news because these big traders are the one who will move the market. Henry A. (2009) one can easily loss if they reversely entered the market at the same time with the big traders.