

Forex vs Futures Markets [Leverage and Trading Volume]

Forex market and **Futures** are two attractive financial markets that differ in **nature, features, trading hours, liquidity, market depth, and applications in trading** (speculation and hedging).

In futures trading, there is the possibility of **price fixation in the future**, making it a suitable tool for **hedging** (risk protection against fluctuations).

In contrast, with its high trading volume and 24-hour activity, Forex is a suitable market for speculation.



In Forex, currency pairs are traded 24/7, whereas the futures market involves buying and selling contracts with fixed expiration dates for various assets.

What is Forex?

Forex is a **decentralized** (OTC) market for trading **currency pairs** (speculation). In this market, traders speculate on the spot rates of currency pairs under **CFD** contracts, meaning traders do not own the underlying asset but can profit from price fluctuations through CFD agreements.

Note: In a CFD contract, the trader agrees to trade the price changes of a symbol without actually owning the underlying asset.

What is Futures?

In the **futures market**, **futures contracts** are traded. In futures contracts, traders agree to trade a specific asset at a **specific price** on a **specific date**.

Futures is a centralized market offered in official exchanges such as the **Chicago Mercantile Exchange (CME)**, **New York Mercantile Exchange (NYMEX)**, and others.

Futures contracts come in various types, as shown in the image below:



The types of futures contracts are shown in the image

Comparison of the Forex and Futures Markets

The **Forex** and **Futures** markets have different natures and, therefore, different applications. **Forex vs Future Table:**

Feature	Forex	Futures
Asset Type	Currency pairs	Currency pairs, commodities, cryptocurrencies, and bonds
Market Structure	Decentralized	Centralized
Trading Hours	24/5	Varies by broker and asset
Costs	Spread, commission, swap	Spread, exchange fees
Liquidity	Very high (5-7 trillion daily)	Lower than Forex
Leverage	Very high (up to 1:500 or more)	More limited (usually up to 1:100)
Hedging	Suitable for short-term currency pairs	Suitable for long-term hedging on all assets

Note: When comparing Forex vs Futures, Forex traders often benefit from **lower transaction costs** and no expiration dates, while Futures traders can hedge against price fluctuations in commodities, indices, and currencies.

One of the most important differences between currency pairs and futures markets is the **method of hedging** and **risk management**.

Hedging

Hedging and **risk management** are significant advantages in **Futures**, which are more limited in Forex.

Hedging in Futures is done because futures allow for the **fixing of prices**, meaning commodities can be purchased at a specific price.

How is Risk Hedging Done in Futures Market?

For example, an airline company that needs **oil** is **concerned about price increases** in the future. This company can use **oil futures contracts** to purchase this product at a specific price (e.g., \$75) in the future. The price is

determined **based on market supply and demand**.

Hedging in Forex

Hedging in **Forex** is done differently, aiming to **protect against short-term currency fluctuations**.

For example, a European company exporting goods to Switzerland is concerned about the depreciation of the Swiss Franc against the Euro (if the Franc weakens, the company will incur losses).

In this case, the company hedges the risk of Franc depreciation by **EUR/CHF**.

purchasing

Hedging is not exclusive to market makers; individual traders may also engage in hedging based on the **fundamental analysis** of the market.

Comparison of Hedging in Forex and Futures:

Parameter	Forex	Futures
Time	Suitable for short-term hedging	Suitable for longer-term hedging
Swap	Yes	No
Price Fixation	No	Yes

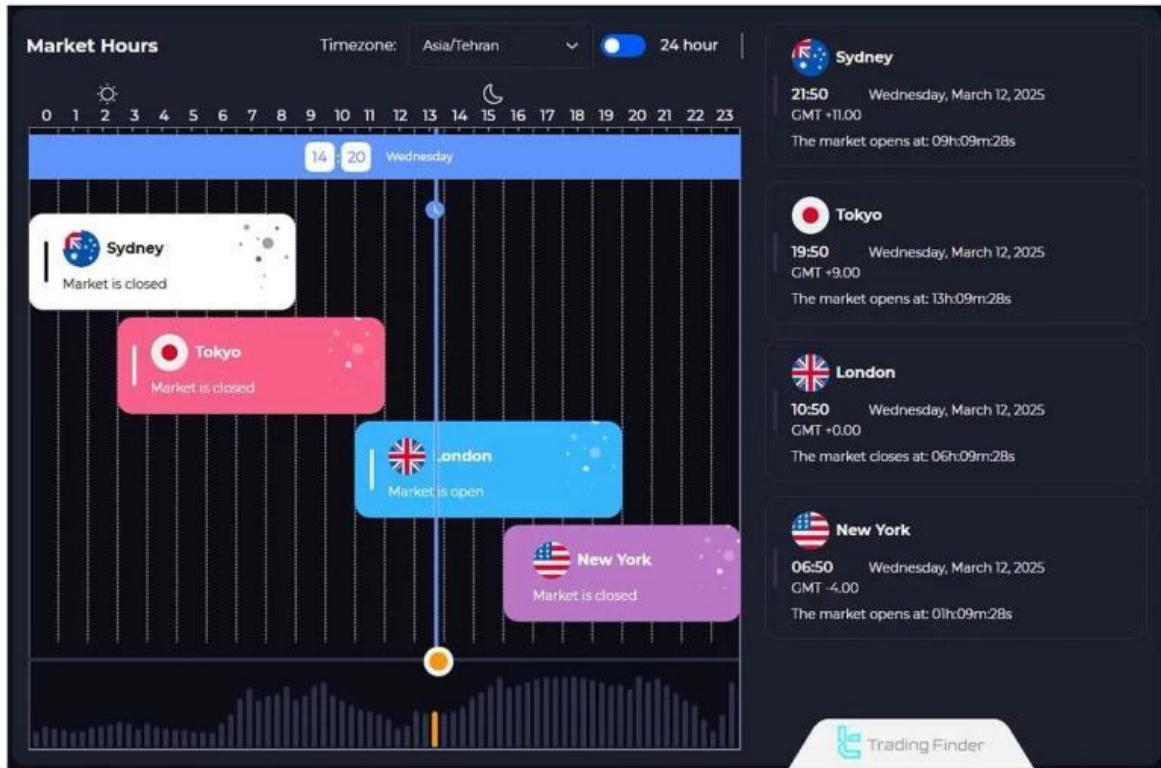
Difference Between Forex and Futures in Trading Hours

Trading hours in the futures and currency pair markets differ. Due to the global nature of Forex, trading hours are fixed, while in Futures, trading hours are determined by the market.

Trading Hours in Forex

Forex operates 24 hours a day, five days a week, and is closed on Saturdays and Sundays. In the currency pair market, trading hours are divided into **four sessions**:

- ⚡ **Sydney**
- ⚡ **Tokyo**
- ⚡ **London**
- ⚡ **New York**



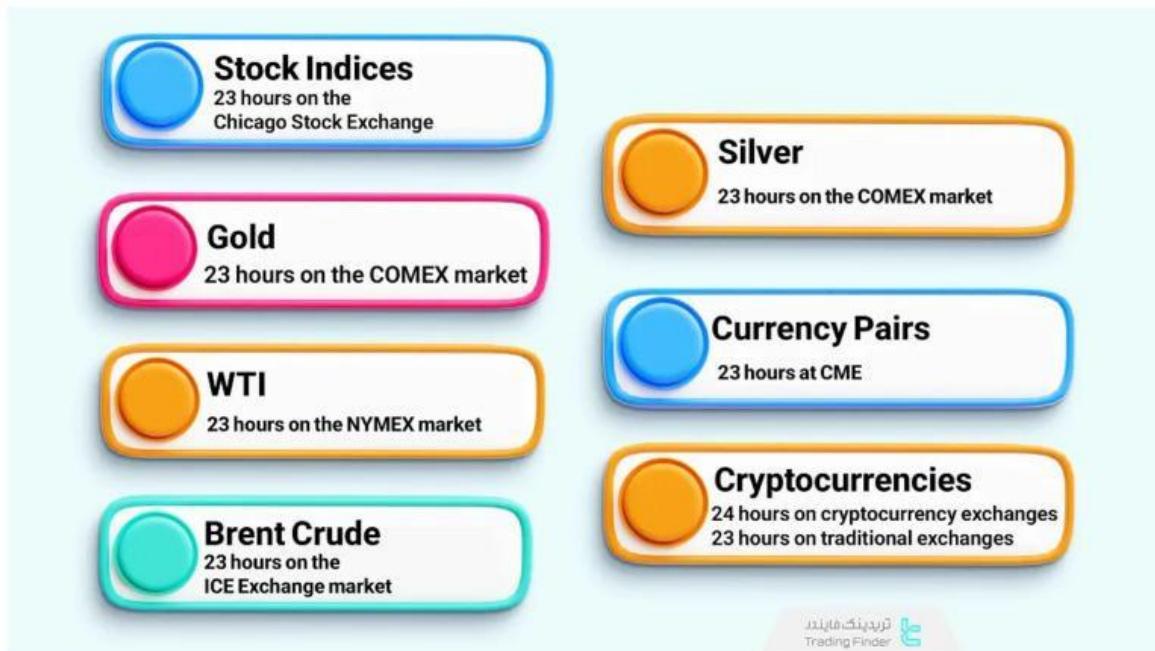
The trading hours of the Sydney, Tokyo, London, and New York sessions in Forex

To view **Forex market sessions**, you can use the **Trading Sessions Tool** from Trading Finder.

Trading Hours in Futures

The futures market has specific trading hours depending on the **asset** (e.g., oil, gold, indices, currencies) and the **broker offering the service**.

The image below shows the trading hours of important assets in the futures market:



The trading hours of important futures assets are shown in the image

Note: Some exchanges are closed on holidays, but crypto futures markets like **Binance Futures** operate 24/7.

While Forex operates 24/5 with two days off, futures markets have a 1-hour break for liquidity management and are closed on specific holidays.

Forex vs Futures in Leverage and Trading Volume

The Forex market, with a daily trading volume of approximately 5-7 trillion Dollars, is the **largest financial market in terms of trading volume and liquidity**.

In contrast, in **Futures**, trading volume **varies by asset**; some assets, A key difference in **Forex vs Futures** is that Forex trading allows for greater leverage, but Futures trading offers more transparency and regulation due to its centralized exchange structure.

Feature	Forex	Futures
Daily Trading Volume	5-7 trillion dollars	Around 30-40 billion dollars
Liquidity	Largest financial market (varies by currency pair, higher for major pairs)	Varies by asset, generally lower
Slippage	Lower	Higher for low-volume assets

Conclusion

Due to the difference in nature between the **Forex** and **Futures** markets, there are differences in their applications and trading styles.

Futures, with the ability to **fix prices at a specific future date**, is a suitable tool for hedging price fluctuations for commercial companies and individual traders.

On the other hand, with its **high trading volume** and **liquidity**, Forex is suitable for speculators and **speculating on currency pairs**.

source:

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