

# How to Read Currency Exchange Rates

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Small (VSE) • Medium (SME / MidMarket) • Other

The value of a currency is determined by its comparison to another currency. The first currency of a pair is called the "base currency", and the second currency is called the "terms currency" (or "quote currency"). The currency pair indicates how much of the terms currency is needed to purchase one unit of the base currency.

Most currencies, including the Canadian dollar, are quoted directly against the US dollar. A "direct quote" always indicates the amount of foreign currency required to buy or sell one US dollar. Other common direct currencies include USDJPY (Japanese yen), USDCHF (Swiss franc), and USDMXN (Mexican peso).

Currencies quoted indirectly include GBPUSD (British pound), EURUSD (Euro), AUDUSD (Australian dollar), and NZDUSD (New Zealand dollar). There is no particular reason why a currency is quoted directly or indirectly, it is a standard market convention that has evolved over time.

If you want to see the rate in terms of Canadian dollars (the CAD rate) as opposed to US dollars (the USD indicative rate) you must find the indirect rate. Indirect rates are shown with the USD listed second. For example, CAD rates are indirect rates and are formatted as CADUSD, i.e. the value of one Canadian dollar in USD terms. USD rates are direct quotes and are formatted as USDCAD.

## EXAMPLE

A US company needs to pay 50,000 Euros to their supplier in Europe today.

The quoted rate for EURUSD is 1.5699

This means that it will cost (not including margins) 1.5699 US dollars for each Euro that they need to purchase today.

$50,000 \times 1.5699 = 78,495$

So 50,000 Euros will cost the company \$78,495 US dollars today.

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