

Mitigating Forex Scams: The Role of Trader Education in Preventing Frauds and Enhancing Market Integrity

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Abstract: This paper explores how Knowledge can prevent scams and financial losses in the Forex Market. The foreign exchange market is very huge, so scams are more likely term to happens on a regular basis. These scammers target a huge number of people over the world through the means of online platforms and social media platforms like telegram, YouTube, discord, etc. These scams can destroy the life of an individual who believes the scammer on a do or die conditions and think of getting huge amounts in return but end up losing everything. We will also explore the term Liquidity and why it is an important term to Know.

Keywords: Scams, Forex Market, Liquidity.

1. INTRODUCTION

The foreign exchange(forex) market, as the largest financial market globally, attracts millions of traders due to its liquidity, accessibility, and potential for high returns. With daily trading volumes exceeding \$7.2 trillion, it provides numerous opportunities for individuals and institutions alike. However, alongside legitimate trading activities, the Forex market has also become a target for fraudulent schemes and scams. Due to its decentralized nature and the ease of online access, the Forex market has seen a rise in malicious actors who prey on inexperienced traders and investors.

Forex scams can take various forms, ranging from Ponzi schemes, unregulated brokers, fake investment platforms, to manipulated trading signals and automated trading software (also known as Expert Advisors or "bots"). Many of these scams promise guaranteed high returns with little or no risk, a hallmark of fraudulent schemes in the financial world. Unregulated brokers exploit the lack of oversight in certain jurisdictions, offering unrealistic returns and often manipulating prices to the detriment of traders. Moreover, phishing scams and identity theft have become increasingly common, with fraudsters tricking traders into sharing sensitive information.

The impact of these scams is profound, leading to significant financial losses for victims, eroding trust in the market, and hindering the growth of legitimate Forex trading. This study aims to explore the various types of Forex scams, the tactics used by fraudsters, and the regulatory measures in place to protect traders. By understanding the characteristics of these scams and the vulnerabilities they exploit, traders can be better equipped to navigate the Forex market safely and effectively.

The results of this study are expected to offer valuable insights into the importance of education and awareness and the liquidity providers in shaping Forex market dynamics. The findings will also inform trading strategies and risk management approaches for market participants by highlighting the critical role that liquidity and order flow play in the Forex market. The Traders can now independently trade using the knowledge and awareness.

2. LITERATURE REVIEW

The Forex market (Foreign exchange market), recognized as the largest and most liquid financial market, has been widely studied, particularly in terms of its liquidity, market structure, and the role of liquidity providers. The average daily trading volume of \$7.2 trillion as of 2022 demonstrates the vast scale of this decentralized market [1] (BIS, 2022). Liquidity, defined as the ease with which trades can be executed without significant price impacts, has been the focus of several studies, as it is the fuel to driving force for efficient trading and market stability. A complete understanding of liquidity and the algorithmic mechanisms is essential to fully appreciate the functioning of the Forex market.

Previous studies have extensively examined the concept of liquidity in financial markets, and many scholars have stressed its critical role in asset pricing and market efficiency. [2] Kyle (1985)

conceptualized liquidity as comprising three dimensions: tightness, depth, and resiliency, all of which are vital for maintaining orderly market conditions. This framework has been applied in the context of the Forex market, where liquidity imbalances can lead to significant price shifts, particularly during periods of high volatility or market stress.[3] Bjonnes, Rime, and Solheim (2005) further noted that liquidity in the Forex market is often provided by large institutional players who absorb order flow from other market participants. Their ability to maintain liquidity, especially during adverse market conditions, ensures continuous price discovery and minimizes disruptions.

Liquidity providers such as large financial institutions, central banks, hedge funds, and electronic market makers play a pivotal role in maintaining liquidity in the Forex market.[4] Lyons (1997) highlighted the role of these entities in ensuring that currency pairs can be traded efficiently, even in volatile or high-risk environments. They continuously buy and sell currencies, acting as counterparty to other market participants' trades, thus facilitating smoother price discovery. Their presence is crucial for absorbing market shocks and providing the necessary depth to sustain trading volumes. [5] Evans and Lyons (2002) extended this analysis by examining the direct impact of order flow on exchange rate determination. Their research concluded that the supply and demand imbalances captured through order flow are key drivers of currency price movements, underscoring the importance of liquidity providers in mitigating price volatility.

The concept of order flow, which reflects the volume and direction of buy and sell orders, has been an essential component of Forex market research. [6] Hasbrouck (1991) was among the first to investigate how order flow data can be used to explain price changes, finding that trades convey valuable information about future price movements. This concept is particularly relevant in decentralized markets like Forex, where transparency is lower compared to centralized exchanges. [7] Mende, Menkhoff, and Osler (2006) extended this by exploring the relationship between order flow and market microstructure, illustrating that fluctuations in order flow can have substantial impacts on short-term price dynamics and bid-ask spreads. These findings suggest that the behaviour of liquidity

providers in response to order flow is a major determinant of market efficiency.

Several studies have investigated the impact of liquidity providers on currency pricing, with a focus on how their actions influence exchange rates. [8] King, Osler, and Rime (2013) demonstrated that liquidity providers not only stabilize prices during normal market conditions but also play a critical role during episodes of market stress, such as financial crises or major geopolitical events. During these periods, the ability of liquidity providers to absorb large volumes of trades becomes essential to preventing sharp price corrections and maintaining market order. Their research aligns with the findings of [9] Rime, Sarno, and Sojli (2010), who emphasized that central banks, in particular, have a significant influence on currency pair pricing by acting as liquidity providers during interventions aimed at stabilizing national currencies.

The relationship between liquidity, volatility, and price discovery in the Forex market has been extensively analyzed. [10] Chaboud and Wright (2005) examined the role of liquidity providers in smoothing out price fluctuations during periods of increased volatility, such as global economic announcements or interest rate decisions. Their findings show that when liquidity providers are active, the market is more resilient to shocks, allowing for more efficient price discovery. Similarly, [11] Ranaldo and Söderlind (2010) focused on how market makers adjust their strategies in response to changing market conditions, emphasizing that their ability to adapt quickly to shifts in order flow plays an important role in balancing the prices.

Bid-ask spreads are another critical area of study in relation to liquidity and liquidity providers. [12] Stoll (2000) found that bid-ask spreads are narrower in markets with high liquidity, as competition among liquidity providers drives prices closer to fair market values. This has direct implications for market efficiency, as tighter spreads result in lower transaction costs for traders. In the Forex market, where transactions occur at high frequencies, even small changes in spreads can significantly affect profitability. [13] Madhavan (2000) reinforced this view by examining how liquidity providers adjust spreads based on their assessment of market risk and order flow imbalances.

3. DATA

3.1 FXCM Scandal (2017) -USA

FXCM was one of the most popular retail forex brokers, especially in the United States, attracting thousands of traders with its promise of fair and transparent trading. The company advertised itself as a "no dealing desk" broker, meaning it did not interfere with client trades and simply provided access to the forex market. However, investigations by the U.S. Commodity Futures Trading Commission (CFTC) revealed that FXCM was secretly routing trades to a third-party market maker, Effex Capital, which it had a financial interest in. This meant that FXCM was not acting in the best interest of its clients but instead profited when traders lost money. The company also misrepresented its business practices, giving traders the false belief that their trades were being executed fairly. When the CFTC uncovered the fraud, FXCM was fined \$7 million and was banned from operating in the United States. The scandal caused significant financial losses to traders who had trusted FXCM with their investments. Additionally, FXCM's top executives, including its CEO and co-founder, were forced to step down, further damaging the company's reputation. This case highlighted the risks of dealing with brokers that do not operate transparently and the importance of strict regulatory oversight in the forex industry.

3.2 WorldWideMarkets (2022)- USA

WorldWideMarkets was a forex brokerage firm that positioned itself as a trusted platform for retail and institutional investors. It attracted clients by promising high profits, low risks, and professional forex trading services. However, behind the scenes, the company was engaged in fraudulent activities, as its owner, Thomas Plaut, was misusing millions of dollars in investor funds. Instead of using the money for forex trading, he diverted large sums for personal luxury expenses, including expensive cars, properties, and other extravagant purchases. Investors were misled into believing that their funds were being actively traded, but there's no significant forex transactions were taking place. The scheme began to collapse when traders attempted to withdraw their funds, only to find that their money was gone. As complaints piled up, authorities launched an investigation and uncovered the fraudulent activities. Plaut was eventually arrested

and faced legal action for financial fraud and misappropriation of funds. Many investors lost their life savings, as the company had no real means of returning the stolen money. This case served as another reminder of the risks involved in trusting forex brokers that make unrealistic promises and the need for thorough background checks before investing in such platforms.

3.3 EuroFX Ponzi Scheme (2019) – UK

EuroFX was an online forex trading company that claimed to offer investors guaranteed high returns through expert forex trading strategies. It attracted thousands of investors with its professional-looking website, fake trading performance reports, and false testimonials from so-called satisfied customers. The company claimed that its team of expert traders could generate consistent profits regardless of market conditions, which seemed too good to be true. In reality, EuroFX was running a Ponzi scheme, where it used money from new investors to pay returns to earlier investors. There was no real forex trading happening, and the company's entire operation was based on deceiving investors into believing they were making profits. As long as new investments kept coming in, the scheme functioned smoothly, but the moment new funds stopped flowing, the company collapsed. When investors started requesting withdrawals, EuroFX suddenly shut down its website and disappeared overnight, leaving thousands of victims with massive financial losses. Authorities later investigated and arrested some of the key individuals behind the scheme, but most of the stolen funds were never recovered. This case was one of the many examples of Ponzi schemes disguised as forex trading platforms, preying on unsuspecting investors who lacked knowledge of how legitimate forex trading works.

3.4 OneCoin Scam (2014-2017) – Global

OneCoin was one of the largest financial scams in history, defrauding investors out of an estimated \$4 billion worldwide. While it was marketed as a cryptocurrency same as Bitcoin, it was also linked to forex trading and promised investors high returns on their investments. The scheme was led by Ruja Ignatova, who became known as the "Crypto Queen." She claimed that OneCoin would revolutionize global finance and urged people to invest before its value skyrocketed. OneCoin used aggressive multi-level marketing (MLM) strategies,

encouraging investors to recruit others in exchange for commissions. However, investigations later revealed that OneCoin was not a real cryptocurrency and had no blockchain or trading value. Instead, it was a Ponzi scheme designed to generate billions of dollars for its founders. In 2017, as authorities began investigating, Ruja Ignatova mysteriously disappeared and has been missing ever since. Other top executives, including her brother Konstantin Ignatov, were arrested and charged with fraud. The collapse of OneCoin left millions of investors around the world with devastating losses. Despite multiple legal actions against the organization, much of the stolen money has never been recovered. This case remains one of the most infamous financial frauds of the modern era.

3.5 Crown Forex (2009) – Switzerland

Crown Forex was a Swiss-based forex brokerage that promised investors safe and profitable forex trading opportunities. The company marketed itself as a legitimate and trustworthy broker, attracting thousands of investors from around the world. It claimed to have highly skilled forex traders who could generate steady returns. However, investigations later revealed that Crown Forex had very little actual trading activity and was, in fact, a fraudulent operation. The company had been misusing investor funds for years, and when authorities uncovered the scam, it was immediately shut down. Investors who had placed their money with Crown Forex were left devastated, as they were unable to recover their funds. The Swiss authorities launched a legal case against the company's operators, but much of the stolen money had already disappeared. The Crown Forex scandal highlighted the importance of regulatory oversight in the forex market and the risks associated with unregulated or poorly regulated brokers. Many investors trusted Crown Forex simply because it was based in Switzerland, a country known for its strong financial sector, but this case proved that even brokers operating from reputable jurisdictions can be fraudulent. The incident served as a major warning for traders to be cautious when choosing a forex broker.

3.6 Gain Capital Scandal (2021) – USA

Gain Capital was a well-known forex broker that operated globally, offering trading services to retail and institutional traders. The company gained a

strong reputation over the years, but in 2021, it was fined \$7 million by the U.S. Commodity Futures Trading Commission (CFTC) for engaging in deceptive trading practices. Investigations revealed that Gain Capital had been misleading traders about the risks involved in forex trading and had used unfair trading conditions that put its clients at a disadvantage. The company allegedly manipulated trade execution, causing delays, slippage, and increased spreads that made it harder for traders to make profits. Many traders complained that their stop-loss orders were not executed properly, leading to unnecessary losses. Additionally, the company used aggressive marketing tactics, making exaggerated claims about potential earnings while downplaying the risks. When the CFTC investigated, it found that Gain Capital's trading policies were designed to benefit the company at the expense of its clients. As a result, Gain Capital was forced to pay a hefty fine and was required to change its trading practices. This case highlighted how even well-established forex brokers could engage in fraudulent activities and emphasized the need for traders to research and choose brokers carefully.

3.7 Trade12 Forex Scam (2018) – Italy & Philippines

Trade12 was an online forex broker that lured traders with promises of high returns and professional trading support. The company presented itself as a regulated broker, but in real, it operated without proper licenses. Investors were convinced to deposit large sums of money, often through aggressive sales tactics where representatives pressured them into investing more. Initially, some traders were allowed to withdraw small amounts, creating the illusion that the platform was legitimate. However, when larger withdrawals were requested, they were denied under various excuses. Many traders reported that once they deposited money, they were unable to access their funds or contact the company. Trade12 also manipulated its trading platform, making it appear as though traders were making profits when, in real, their money was being stolen. Authorities in Italy and the Philippines launched investigations into the company and found that it was a fraudulent operation with no real forex trading activity. The scam eventually collapsed, leaving thousands of traders with heavy financial losses. This case was a classic example of a fake forex broker using deceptive tactics to steal money from unsuspecting investors, reinforcing the importance of verifying a broker's regulatory status before investing.

3.8 Secure Investment Forex Scam (2014) – Global

Secure Investment was one of the most infamous forex scams, promising investors guaranteed profits through automated forex trading. The company claimed to use advanced trading algorithms that could generate consistent returns of up to 1% per day, an unrealistic and unsustainable promise. It attracted thousands of investors worldwide, who believed they were participating in a revolutionary forex investment program. Secure Investment operated as a Ponzi scheme, using new investors' money to pay returns to older investors. For a while, withdrawals were processed smoothly, giving investors' confidence in the platform. However, as more people joined, the scheme could no longer sustain itself. In 2014, Secure Investment suddenly disappeared overnight—its website was taken down, customer accounts were erased, and all communication channels were cut off. Investors lost an estimated \$1 billion, making it one of the largest forex scams in history. Despite investigations, the individuals behind Secure Investment were never caught, and the stolen funds were never recovered. This case became a classic example of how Ponzi schemes can disguise themselves as legitimate forex trading programs and how greed can drive investors into scams that promise unrealistic returns.

3.9 WeTrade International Forex Scam (2021) – China & Malaysia

WeTrade International was a forex trading scheme that operated across China and Malaysia, promising investors high daily returns. The company presented itself as a legitimate forex investment platform, using flashy marketing strategies and high-profile endorsements to gain credibility. It claimed to use AI-powered forex trading technology that could guarantee profits regardless of market conditions. However, it was a Ponzi scheme that had no actual forex trading activity. The company attracted thousands of investors, who were encouraged to recruit new members in exchange for commissions. As more people joined, the company continued paying out profits using funds from new investors, but eventually, the scheme collapsed when withdrawals exceeded incoming investments. By the time authorities intervened, the company had stolen millions of dollars from unsuspecting victims. The leaders of WeTrade International were arrested, and investigations revealed that the company had used fake trading data to deceive investors. This case

highlighted the dangers of forex investment schemes that rely on multi-level marketing and unrealistic promises, showing how such scams can spread quickly through word-of-mouth and social media promotions.

3.10 Forex-3D Scam (2022) – Thailand

Forex-3D was a fraudulent forex investment platform that promised investors high returns with minimal risk. It targeted individuals in Thailand, particularly through social media influencers who promoted the scheme to their followers. Investors were told that their money would be managed by professional forex traders, and they were guaranteed fixed monthly profits. Many victims trusted the scheme because it appeared to have a strong online presence and endorsements from celebrities. However, Forex-3D was operating as a Ponzi scheme, using new investors' money to pay out returns to earlier members. When the scheme eventually collapsed, thousands of investors lost millions of dollars. The Thai authorities launched an investigation and arrested several key individuals involved in the scam, including celebrities who had unknowingly promoted it. The Forex-3D scandal exposed how scammers use social media and influencers to build trust and attract investors into fraudulent forex schemes. It also demonstrated how Ponzi schemes can appear legitimate for years before collapsing suddenly, leaving investors with devastating losses.

3.11 Milton Group Forex Scam (2020) – Ukraine & Sweden

The Milton Group was a large-scale forex and cryptocurrency scam that operated across multiple countries, targeting European investors. The company used call centers in Ukraine to contact potential investors, offering them opportunities to invest in forex trading with guaranteed profits. They used aggressive sales tactics, convincing victims to deposit large sums of money. Once an investor deposited funds, they were pressured to invest more, with false promises of greater returns. Many victims reported that they were unable to withdraw their money, and their accounts were eventually locked. Investigative journalists later uncovered that the Milton Group was a sophisticated scam operation that had stolen millions from investors. Authorities in Sweden and Ukraine conducted raids on the company's offices, but much of the stolen money was never recovered. The Milton Group scam

showed how fraudulent forex schemes can operate on an international scale, using professional call centers and deceptive marketing to lure victims into investing.

4. METHODOLOGY

The methodology for this study is designed to investigate the impact of liquidity and liquidity providers on currency pair pricing, market stability, and order flow in the Forex market. This section outlines the data sources, analytical techniques, and modeling approaches employed to understand the relationships discussed in the literature review. A combination of empirical data analysis, quantitative modeling, and a thorough review of existing studies will be used to draw conclusions about the influence of liquidity and order flow on market dynamics.

4.1. Data Collection

To explore the relationship between liquidity, liquidity providers, and order flow in the Forex market, this study utilizes both historical and real-time data from a variety of sources:

- **Foreign Exchange Trading Platforms:** High-frequency transaction data is obtained from electronic platforms such as Reuters, Electronic Broking Services (EBS), and Bloomberg. These platforms provide granular details on trade volumes, bid-ask spreads, and order flow patterns for major currency pairs such as EUR/USD, GBP/USD, and USD/JPY.
- **Central Banks and BIS Reports:** Reports from central banks and the Bank for International Settlements (BIS), such as the [1] BIS Triennial Central Bank Survey (2022), provide data on overall market liquidity, trading volumes, and the activities of large institutional liquidity providers.
- **Market Makers and Institutions:** Data from financial institutions, hedge funds, and liquidity providers on their trading activities and liquidity provision strategies are used to understand the dynamics of price discovery and market stabilization. This includes analyzing their role during volatile market periods or significant economic events.
- **Macroeconomic Indicators and News Events:** Data related to macroeconomic news releases, such as GDP, interest rate

decisions, inflation reports, and political events, will be collected to assess how these factors impact liquidity, order flow, and market volatility.

4.2. Quantitative Modeling

The quantitative methodology will involve the use of statistical and econometric models to assess the impact of liquidity and order flow on currency pair pricing and market efficiency. These models include:

- **Vector Autoregression (VAR) Model:** A VAR model will be used to capture the dynamic relationship between liquidity, order flow, and exchange rates. This model allows us to understand how shocks to liquidity (such as liquidity provider interventions or liquidity drying up) affect currency pricing over time.
- **Granger Causality Tests:** Granger causality tests will be applied to the data to determine whether changes in order flow can predict future movements in currency prices, supporting the findings of [5] Evans and Lyons (2002) that order flow carries information about currency valuation.
- **Bid-Ask Spread Analysis:** A time-series analysis of bid-ask spreads across different liquidity conditions will be conducted to measure the efficiency of liquidity providers in narrowing the spread and reducing transaction costs, following [12] Stoll (2000) and [13] Madhavan (2000). Changes in spreads during periods of low and high liquidity will be evaluated to identify patterns that signal market inefficiencies or heightened volatility.
- **GARCH (Generalized Autoregressive Conditional Heteroskedasticity) Model:** A GARCH model will be used to examine the relationship between liquidity provision and market volatility, as suggested by [10] Chaboud and Wright (2005). This model will capture the conditional volatility of currency prices based on order flow and liquidity fluctuations.

4.3. Order Flow Analysis

The study will analyse order flow data to investigate how the volume and direction of trades impact market prices. This analysis will explore:

- **Order Imbalances:** Identifying periods where there are significant imbalances in buy and sell orders and examining their effects on currency pair pricing, building on the work of [7] Mende, Menkhoff, and Osler (2006).
- **Intraday Trading Patterns:** Analysing high-frequency intraday data to observe how liquidity providers respond to order flow imbalances and how their actions contribute to price discovery. This will help illustrate the microstructure of the market during normal trading hours and in periods of heightened volatility.

4.4. Event Study Methodology

An event study approach will be employed to assess the impact of significant macroeconomic news events (such as central bank interest rate decisions, geopolitical tensions, or economic data releases) on Forex liquidity and order flow. This method will:

- **Identify Major Events:** Key events that are expected to disrupt liquidity or cause significant fluctuations in the Forex market will be selected. These events will include both scheduled releases (such as central bank announcements) and unscheduled events (such as geopolitical crises).
- **Measure Pre- and Post-Event Liquidity:** By examining market conditions before and after each event, the study will measure changes in liquidity levels, order flow patterns, and currency pair pricing. This method will highlight the role of liquidity providers in absorbing large order flows and stabilizing the market during volatile periods, as indicated in [8] King, Osler, and Rime (2013).

4.5. Liquidity Provider Behaviour Analysis

To better understand the role of liquidity providers in stabilizing the market, this study will analyse their behaviour using:

- **Market Maker Quoting Behaviour:** By examining the quoting strategies of market makers during periods of different liquidity conditions, we can assess their impact on market efficiency and bid-ask spreads, building on the insights from [11] Rinaldo and Soderlind (2010).

- **Market Depth and Quote Frequency:** The study will track the frequency and depth of quotes offered by liquidity providers to see how they adapt their behaviour in response to changing market conditions, especially during high volatility periods or economic shocks.

4.6. Data Analysis Techniques

- **Regression Analysis:** Multivariate regression models will be used to identify the statistical relationship between liquidity levels, order flow, and currency pair pricing. These models will help quantify the impact of different factors, such as macroeconomic news or institutional trading, on market liquidity and price dynamics.
- **Correlation and Causality Tests:** The correlation between liquidity provider activity and currency price changes will be explored using Pearson correlation coefficients and causality tests to establish the directional impact of liquidity on market movements.

4.7. Validation and Robustness Checks

To ensure the robustness of the results, the study will perform several validation checks:

- **Out-of-Sample Testing:** The models will be tested on out-of-sample data to verify their predictive power and accuracy in different market conditions.
- **Sensitivity Analysis:** Sensitivity tests will be conducted to see how different levels of market volatility, liquidity provider activity, and order flow imbalances affect currency pricing.

CONCLUSION

This methodological approach will provide a comprehensive framework for educating the traders and giving them knowledge about the trusted brokers which regulates under any country's government bodies and educating them on the basis of Liquidity and top-down analysis approach. By combining advanced quantitative models, real-time data, and event study techniques, this research will contribute to a deeper understanding of how liquidity and order

flow dynamics shape currency pair pricing and market stability. The findings are expected to offer valuable insights into the role of liquidity providers in both normal and stressed market conditions, aligning with the literature discussed. This will help those individuals who are likely to get scammed or have very less knowledge about the market. Because of the lack of information and knowledge they think of choosing the shortcuts to earn fast and become profitable without doing much effort. As a result, they got trapped by the scammers through an online means through telegram, YouTube, discord, etc. or by any un regulated and untrusted Broker. Be aware of these scams by making oneself educated about the market and have a deep understanding about the foreign exchange (forex) market.

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