The Dangers of Forex Auto-trading

Crash Examples from 2011 – 2024

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EUR/CHF Forex Pair During the Swiss Frank Flash Crash on Jan 15, 2015

There have been many instances where significant losses have occurred in Forex auto-trading. One notable example involved the **Swiss Franc Flash Crash in 2015** (shown here) when many automated trading systems were unable to handle the extreme volatility following the Swiss National Bank's decision to remove the cap on the franc. (See "January 2015" below.)

Similar events, like the **Brexit vote in 2016** and **USD/JPY Flash Crash in 2019**, also caused substantial losses for traders relying on algorithmic strategies, particularly those using high leverage. These events underline the risks of auto-trading during market shocks.

Here are summaries of the most significant crash events from 2011 to 2024…

August 2011

Yes, another notable example of an autotrade strategy generating large losses occurred during the **EUR/CHF crisis in August 2011** due to concerns over the Eurozone's debt crisis.

Leading up to the event, the Swiss Franc was seen as a safe haven currency, and as the Euro weakened, investors and traders rushed to buy CHF. This led to a rapid appreciation of the Franc

against the Euro, which severely impacted many automated Forex trading strategies that were long EUR/CHF, expecting the pair to remain stable or move upward.

Autotrade strategies that were based on trend-following, mean-reversion, or even carry trades (where traders borrow in low-interest-rate currencies like CHF to invest in higher-yielding currencies like EUR) were particularly affected. As the EUR/CHF pair plummeted, many of these strategies triggered automatic buy positions or stop-loss orders, leading to a cascading effect of losses.

The **Swiss National Bank (SNB)** eventually intervened in September 2011, setting a minimum exchange rate (or "peg") of 1.20 EUR/CHF to stop the Franc from appreciating further. However, by that point, many autotrading accounts had already incurred heavy losses. The sudden move toward the Franc and the unexpected volatility led to many retail traders and funds using autotrading systems suffering significant setbacks, especially those using high leverage.

This event is another reminder of the risks involved with autotrade strategies during periods of geopolitical or economic instability, particularly when a currency is perceived as a safe haven.

May 2013

Then there was the **2013 Japanese Yen (JPY) Flash Crash** that caused significant losses in Forex autotrading strategies. In May 2013, the Yen experienced a sharp and sudden appreciation against the US Dollar (USD) and other major currencies. This movement occurred amidst market fears about the sustainability of Abenomics, the economic policies initiated by Japanese Prime Minister Shinzo Abe, which aimed to weaken the Yen and boost inflation.

During this period, many autotrading systems were betting on a continued weakening of the Yen, as this had been the dominant trend for months. These systems were programmed to follow the trend and keep buying USD/JPY, anticipating that the Yen would depreciate further. However, when the Yen suddenly strengthened sharply, many of these systems triggered stop-losses or even opened additional positions against the Yen, amplifying the losses.

The flash crash occurred when liquidity was low, meaning that many orders couldn't be filled at expected levels, and prices moved drastically in a very short period. Autotrade systems, particularly those using high leverage, were hit hard, as they couldn't respond quickly enough to the sudden change in market sentiment. Many traders relying on these automated strategies saw significant losses in a matter of minutes.

This event highlights the risks of depending on autotrade systems in Forex, especially during times of heightened uncertainty or low liquidity, as sudden reversals can lead to large losses even when the overall trend had previously been favorable.

January 2015

Perhaps the most notable example of a Forex autotrade strategy generating sudden high losses occurred with the **Swiss Franc event in January 2015**. On January 15, 2015, the Swiss National Bank (SNB) unexpectedly removed its cap on the Swiss Franc's exchange rate with the Euro. This decision led to a massive, rapid appreciation of the Swiss Franc, with a spike of up to 30% in a matter of minutes.

Many automated Forex trading strategies, particularly those based on technical indicators and trend-following algorithms, were caught off guard. Traders using leverage, a common practice in the Forex market, saw their positions quickly wiped out as stop-loss orders were unable to execute due to liquidity issues. This situation was compounded for autotrading systems because they were often set to automatically open positions in currency pairs without considering such extreme, unexpected events.

One of the most prominent impacts was on **Alpari UK**, a Forex broker that went into insolvency as a result of client losses during this event. Clients using autotrade strategies through platforms like MetaTrader 4 saw significant losses, as these systems were unable to react appropriately to the massive market disruption. Other brokers and autotrade systems also faced similar outcomes, and some traders lost their entire accounts in a matter of minutes.

This event highlights the risks of relying on automated trading strategies in highly leveraged markets like Forex, particularly during unexpected economic or geopolitical events.

June 2016

Another example of significant losses caused by autotrading strategies occurred during the **Brexit vote in June 2016**. On June 23, 2016, the United Kingdom voted to leave the European Union, an event that had been closely watched by global financial markets. Many Forex traders and autotrade systems were positioned for the UK to remain in the EU, as most polls and market expectations leaned toward that outcome.

When the vote results revealed that the UK would leave the EU, the British Pound (GBP) experienced a historic plunge, falling around 10% against the US Dollar (USD) in a matter of hours. This was one of the largest single-day declines in the history of the GBP.

Autotrade systems, particularly those relying on technical analysis, trend-following, or mean-reversion strategies, were not designed to handle such a dramatic political event. Many automated systems had positioned themselves long on GBP pairs, expecting the Pound to appreciate in the event of a "Remain" vote. When the opposite happened, these systems were caught off guard and triggered stop-loss orders or, worse, added to losing positions, resulting in even larger losses.

The liquidity crunch and massive volatility also caused issues for retail traders using autotrade platforms, as orders could not be executed at expected prices, leading to substantial slippage and magnified losses. Many traders lost significant portions of their accounts overnight, with some brokers facing challenges in maintaining liquidity.

This example underscores the risk of using automated trading systems during major political events or when market outcomes are uncertain, as sudden shocks can cause extreme and unexpected volatility.

October 2016

Then there was the **British Pound Flash Crash on October 7, 2016**. During Asian trading hours, the British Pound (GBP) unexpectedly plummeted by about 6% against the US Dollar (USD) in a matter of minutes. The cause of the crash remains debated, but it is widely believed that algorithmic trading systems, including autotrading strategies, played a significant role in exacerbating the market movement.

Many autotrade systems that used high-frequency trading, momentum-based strategies, and stop-loss triggers were overwhelmed by the sudden and sharp movement. These systems were programmed to respond to price action and market signals, but in the case of the flash crash, they contributed to a feedback loop of selling pressure. Once certain technical levels were breached, automated algorithms continued to sell, worsening the price decline.

Retail traders using automated trading platforms were particularly vulnerable because the extreme volatility caused many brokers to struggle with liquidity, making it difficult for stop-loss orders to be executed at intended levels. This resulted in much larger-than-expected losses for many traders.

The event led to significant losses for those using autotrading strategies in the GBP/USD market, as their systems were unable to react to the speed and magnitude of the crash. It also raised concerns about the potential dangers of high-frequency trading and the unintended consequences of automated systems during periods of extreme market stress.

August 2018

Another significant example where autotrade strategies led to substantial losses occurred during the **Turkish Lira Crisis in August 2018**. During this period, the Turkish Lira (TRY) lost about 30% of its value against the US Dollar (USD) in a matter of days, driven by a combination of political tensions between Turkey and the US, high inflation, and concerns about Turkey's debt levels.

Many automated trading systems that were positioned long in Turkish Lira (expecting stability or a recovery) were severely impacted. These systems often relied on technical indicators and didn't account for the fundamental political and economic risks that triggered the Lira's sharp decline. As the Lira's value plummeted, these autotrade strategies continued to open positions or failed to close them in time, leading to amplified losses.

Autotrade systems were particularly vulnerable during this time because the rapid depreciation of the Lira made it difficult for orders to execute at favorable prices. Some platforms also experienced liquidity issues, exacerbating the problem for retail traders using autotrading systems. Many traders who were over-leveraged saw their accounts quickly wiped out, as their stop-loss orders couldn't trigger fast enough to prevent large losses.

This event serves as yet another cautionary tale about the limitations of autotrade systems, especially in the face of unexpected macroeconomic and political events that can lead to extreme currency volatility.

January 2019

Another significant event where autotrade strategies resulted in large losses is the **USD/JPY Flash Crash on January 3, 2019**. During a period of low liquidity in the Asian trading session, the Japanese Yen (JPY) surged against the US Dollar (USD) and other major currencies, with the USD/JPY pair dropping nearly 4% in minutes.

This crash was triggered by a mix of factors, including concerns over global growth, Apple's revenue warning, and thin holiday market conditions. However, a major contributing factor was algorithmic and autotrading systems reacting to these sudden movements. Many of these systems

were designed to follow price trends, and as the Yen spiked, they triggered a wave of sell orders, amplifying the move.

Traders using autotrade strategies faced massive losses, particularly those with stop-loss orders that couldn't be executed properly due to the lack of liquidity. High-frequency trading algorithms were also believed to have contributed to the price collapse by flooding the market with additional orders as the Yen surged.

Retail Forex traders relying on autotrade systems saw significant losses, as many were unprepared for such an extreme move in the currency pair. The rapid nature of the price movement meant that some automated systems didn't have time to close positions before they were hit with substantial losses.

This event is yet another example of how autotrade strategies, particularly those not designed to handle extreme volatility or low liquidity conditions, can lead to catastrophic losses in highly leveraged markets like Forex.

April 2020

In 2020, Traders using **EA (Expert Advisor) market on MetaTrader** platforms experienced unexpected losses during periods of low liquidity or high volatility. Some automated systems that traded GBP/USD during the COVID-19 pandemic struggled due to rapid and unpredictable price swings, leading to substantial losses for those using automated strategies that weren't properly risk-managed.

Another example involves the **"Flash Crash" in April 2020**, during the height of the COVID-19 pandemic. Automated Forex trading systems were significantly affected when the global market faced unprecedented volatility. Currency pairs like **USD/JPY** and **EUR/USD** experienced wild swings as traders reacted to macroeconomic uncertainty. Many auto-trading algorithms, especially those based on trend-following strategies, could not adapt to the sudden, erratic price movements, leading to substantial losses for traders who were over-leveraged or who relied too heavily on their systems without risk-management protocols in place.

October 2022

Another example of significant losses from Forex auto-trading occurred in **October 2022**, when heightened market volatility following unexpected U.S. inflation data triggered many autotrade algorithms to execute loss-making trades. Auto-trading systems, particularly those without risk-management parameters, misinterpreted the data, causing trades to be opened during extreme fluctuations in USD pairs. Many traders using high-frequency systems, which weren't designed for such rapid movements, faced substantial drawdowns, with some losing their entire capital due to over-leveraged positions.

October 2023

A recent example of substantial losses caused by automated Forex trading platforms occurred in **October 2023**, driven by high market volatility due to geopolitical and macroeconomic factors. One key contributor was the ongoing uncertainty surrounding **interest rate hikes** by major central banks like the Federal Reserve and the European Central Bank. These rate hikes, meant to combat persistent inflation, created significant swings in currency pairs such as USD/EUR and GBP/JPY.

Several autotrade platforms, which rely on algorithms and trend-following strategies, were caught off guard when unexpected policy shifts occurred. For instance, the **US dollar's fluctuations** due to shifting interest rate expectations resulted in trading robots executing losing trades as the algorithms couldn't adjust in real time to policy announcements or sudden macroeconomic changes.

Additionally, platforms like **MT4 and MT5**—popular for autotrading—struggled during moments of high volatility because many strategies failed to factor in real-time data or extreme events, which were frequent in 2023 due to factors like the **Russia-Ukraine conflict** and inflation spikes. The lack of liquidity during these volatile moments also led to slippage, further compounding losses for traders relying on automated strategies.

This shows how even advanced autotrading systems can struggle during periods of heightened volatility, leading to significant losses when market conditions change rapidly.

Forex Autotrading in 2024

In 2024, no significant widespread Forex autotrade platform crashes have been publicly reported yet. However, several platforms still face the typical risks associated with algorithmic trading, particularly during times of extreme volatility. For example, platforms like **MetaTrader 4 (MT4)** and **MT5**, which are used by many brokers, continue to support a variety of automated trading systems, but these systems can still struggle during rapid market shifts.

Instances of losses often arise from factors such as economic news shocks, central bank policy changes, or geopolitical events. For example, in previous years, events like interest rate hikes or inflation data releases have caused rapid fluctuations, leading to losses on platforms using automated strategies that couldn't adapt in real-time. This pattern remains relevant in 2024, especially as macroeconomic uncertainties continue to influence global markets.

Platforms such as **AvaTrade** and **Pepperstone** provide tools for traders to use algorithms, but the volatile nature of the Forex market means there is always a risk of sudden, significant losses if the strategies aren't robust enough to handle major market shifts.(

For the most part, these systems require careful tuning and risk management, especially in 2024, where macroeconomic factors like inflation and interest rate policies continue to affect Forex markets.

There are reports from users in forums like **Forex Peace Army** who have experienced substantial losses using **Nurp.com's** algorithmic trading systems. Some users described losing significant amounts of money, with one mentioning a $44,000 net loss in a crypto-related program.

Other complaints included mismanagement, lack of support, and failure to meet contractual obligations. Despite these negative experiences, some users still found success with specific programs, but overall, there were numerous concerns about reliability and customer support. The general negative feedback suggests caution for any financial activities on the platform.