

Forex Trading Machine

Report: "Trading Non-Farm Payroll"

Trading the "news" has become a very popular subject amongst forex traders. The reason is simple. Following news releases, especially from the US government, many currency pairs make wild price swings in a matter of minutes (sometimes seconds). On paper it seems very appealing, a fast profit within a very short period of time! However, reality is different. I have already explained in the course why it is not a good idea to speculate direction of the market before a news release/government report is issued so I will not dive into that here.

I will attempt to teach you throughout this lesson a good and easy to implement strategy I use to trade the Non-Farm payroll data release.

So let's start...

The king of all economic reports is called the Non-Farm payroll. It is issued by the United States government once a month (on the first Friday of the month) and is intended to represent the total number of paid US workers of any business, excluding the following employees:

- farm employees
- private household employees
- employees of nonprofit organizations that provide assistance to individuals
- general government employees

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As a general rule, for an economic report to produce a tradable price swing (one that will be large enough to allow a high probability trade) it has to be way above or under consensus. Consensus here means an agreement reached by a number of top economists as to what the specific number will be. This number is published in many financial and forex related websites. In most cases, with NFP this rule does not apply and here is why.

The NFP data is so anticipated and speculated that in most cases no matter what it is, a large price swing occurs following its release lasting in many cases two or three days allowing you to place a high probability trade at some point. Its effect on the US dollar is big. This is why I like to trade it so much, no interpretation of numbers.

With other economic reports you have to use judgment as to whether the specific number released is different enough from consensus to produce the required large price swing. I am not saying that these other economic reports cannot provide good trading opportunities, they can. However, these opportunities will not be as “high probability” as NFP trades and they will require that you have some experience trading forex. Bottom line, start with the easy and most profitable. If later on in your career as a forex trader you feel that trading NFP is not enough, try other economic releases.

The NFP affects the GBP/USD the most. This pair produces the largest price swing following the release of the report and hence it's the prime trading candidate.

The logic behind this trading strategy is simple, join the trend or countertrend once the market has digested the significance of the

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report. My approach to the trade is this: while others are fighting and speculating as to where the market will go (and losing money in the process), I will sit on the sidelines and wait for a good risk/reward trade that is based on direction and logic rather than on pure "I hope the market will move in that direction" speculation.

Yes, my approach to trading NFP does not aim at catching the whole 200 pip move (although, in some occasions a very big part of the total NFP range can be caught).

Why? Because in my personal opinion aiming to do so puts a bit of gambling into the equation and I try to approach trading as a business and not as a "get rich quick" from one trade activity. But again, that is my personal approach to the issue. Remember there is no right or wrong in trading, there is works or does not work.

NFP comes out at exactly 08:30 ET. At the exact moment the report hits the news wires (and sometimes seconds before that) most currency pair's price gaps up or down. That is the first reaction of the market. The second reaction of the market after the gap is aggressive moves to both directions. In the process, the bid/ask of the particular currency pair widens. These two reactions make it very dangerous to enter a trade and hence it is smart to stay on the sidelines until things calm down. Once things calm down I start my analysis in order to place a trade. The rules are very simple and again, the reasoning behind them is: let the market settle down, let the market breathe and let the bid/ask difference narrow down to what it is in normal market conditions.

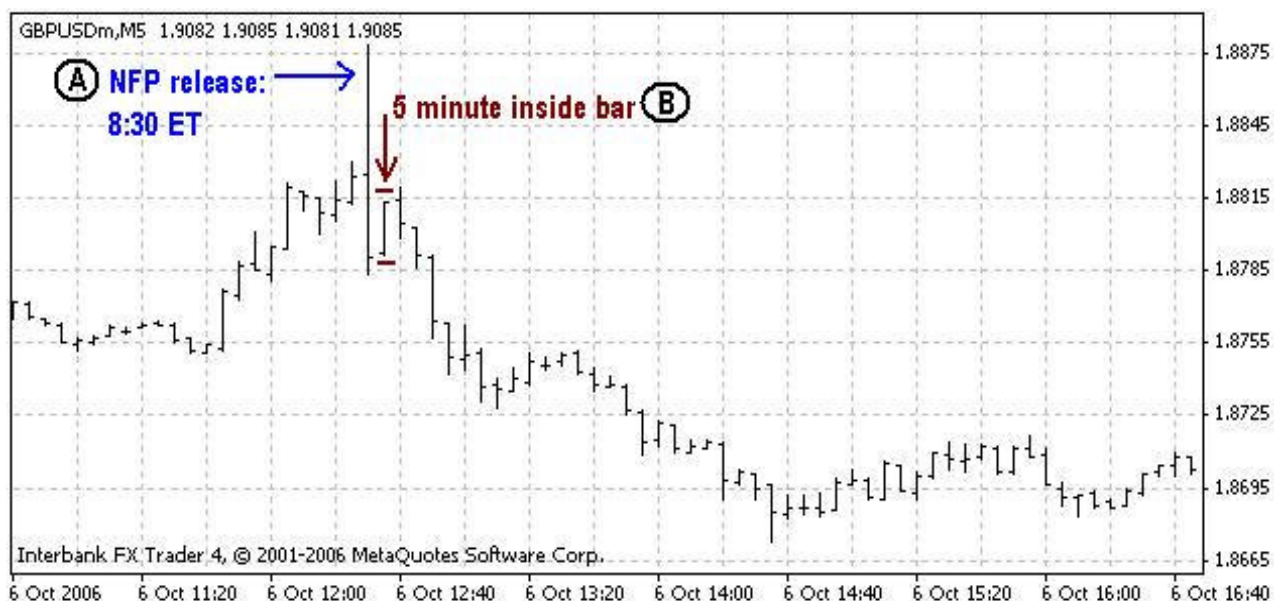
Step 1: Waiting for the first inside bar on a 5 minute bar chart after 8:35 ET.

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NFP is issued exactly at 8:30 ET. We will look at a five minute bar chart for our analysis.

The first five minute bar after release ends at exactly 8:35 ET. From this point we wait for a "inside" five minute bar. What is an inside five minute bar? Simple, a bar that its high **and** low is not higher **and** lower than the previous five minute bar. In other words, the previous bar contains within it the entire "inside" bar.

Let's look at an example:



A. – This is the five minute bar of the exact release time of NFP. As you can see, the market makes a wild price swing first to the up side and then closing on the downside. This scenario occurs every time the report comes out and it is a time to watch and not trade.

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B. – This is the first five minute bar after the five minute report release bar. Here we can see what an inside bar looks like. Note how this bar's low and high are contained within the previous bar's low and high. It does not exceed in price the previous bar's low/high. Now, **and this is important**, the inside bar will not always be the next bar after the 5 minute bar of the report release. Many times it can be the second, third, fourth or more bars after the five minute NFP bar. As an example, suppose the NFP 5 minute bar (8:30 ET) makes a high of 1.8060 and a low of 1.8010. The next bar (8:35 ET) breaks the high of the NFP bar making a high/ low of 1.8110/1.8050. Now, the very next bar does not move above or below 1.8110/1.8050. This is our inside bar.

Step 2 – Trade entry and exit

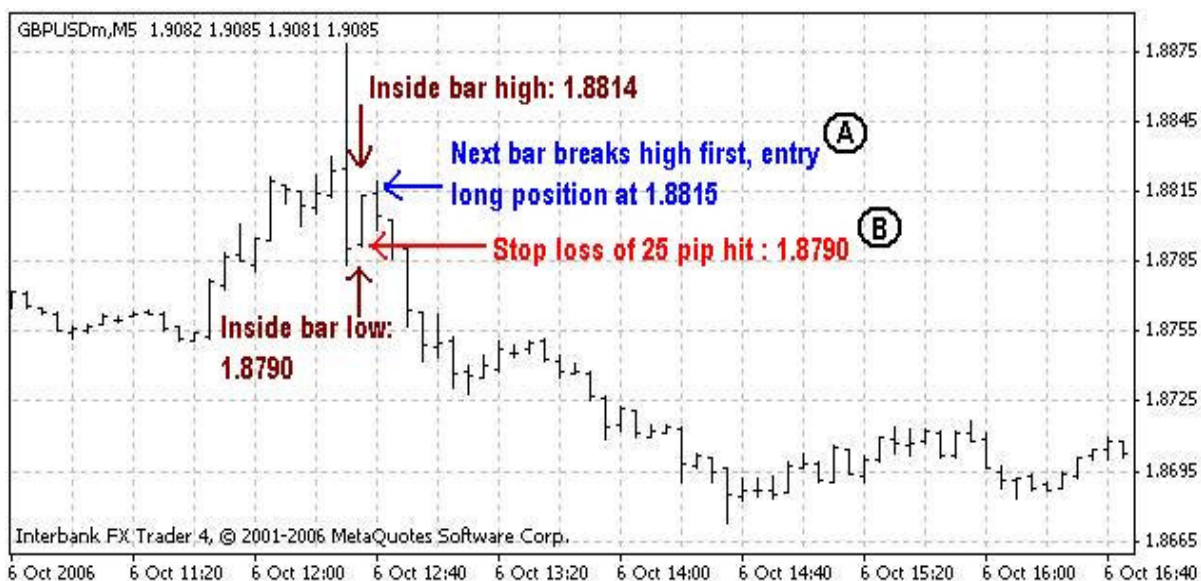
Once we spotted the inside bar it is time to wait for a trade to trigger. This is very simple. A buy order is placed if the market moves above the inside bar. A sell order is placed if the market moves below the inside bar. Time does not matter here. Over 90% of the time it will be the next bar after the inside bar which will break the high/low of the inside bar. But even if it is not the next bar, we wait until that high/low is broken (of the inside bar).

Once we entered the trade, long or short, we place a stop loss of 25 pips. Our profit objective is measured in time and not in pips. We exit the market exactly four hours after we entered the trade. Why a time objective and not a pip objective? Simply because once a trend starts after NFP release (most of the time) it will continue strong for about that time and then it will start to narrowly range. Most of the time the four hours fall within that range meaning that we milked the trade until the end.

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Now, if our stop loss is hit within no more than two hours we wait for a trade in the opposite direction. This means that if our first trade was a long trade (breaking the high of the five minute inside bar) we now wait for a short trade (a break of the low of the original five minute inside bar). Again, we place a stop loss of 25 pips and a profit objective of four hours. If we get stopped again we do not enter a third trade.

Let's look at the above example which triggered two trades:



Here is how the trade develops:

A. – Here we can see that the first to be broken is the high price of the inside bar. We place a long trade at 1.8815 (remember the high was 1.8814). The stop loss is immediately placed at 1.8790 (25 pips from entry).

B. – Our stop loss at 1.8790 is hit for a 25 pip loss.

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The trade ended up at a loss but we move on and a second trade is triggered:



Here is how the trade developed:

A. – The low of the inside bar is broken which triggers a short trade at 1.8789.

B. - We place a stop loss at 1.8814 (25 pips from entry). Remember, if the stop loss is hit this time there is no third trade.

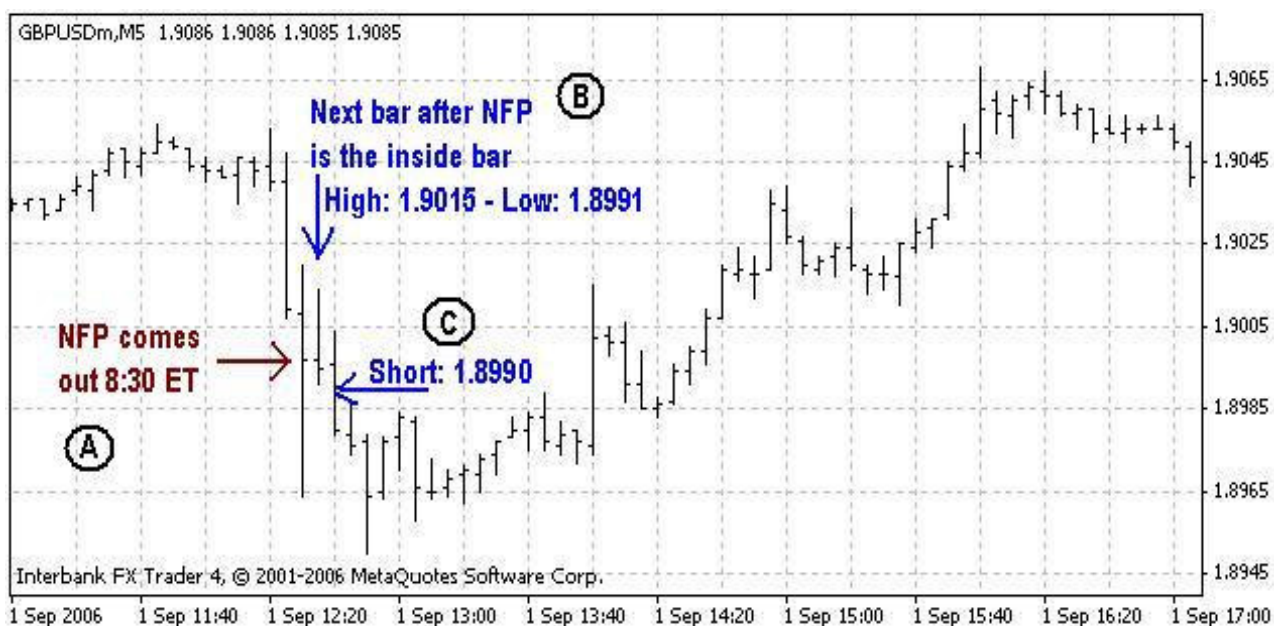
C. – Stop loss was not hit and the market moves in the direction of the trade. We entered the trade at 8:48 ET and we exit the trade four hours later at 12:48 ET for a profit of 84 pips.

We had two trades in this NFP day for a total profit of 59 pips (-25 pips from the first trade and +89 from the second trade).

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Now that you understand the rules of entry and exit we will look at one more NFP example.

October NFP issued on September 01/2006



A. – NFP is issued at exactly 8:30 ET. We can see the reaction of the market at that time.

B. – The next bar after NFP is the inside bar making a high/low of 1.9015/1.8992. Again, remember that it will not always be the case that the very next bar after NFP will be the inside bar. Also remember, that the inside bar does not have to be contained between the high and low of the NFP bar. It can be contained between the high and low of any bar after NFP release.

C. – The market breaks the low of the inside bar and we are short at 1.8991.

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Let's look at how the trade develops:



D. – The trade does not work out as planned and our stop loss of 25 pips from entry is hit at 1.9015. The trade ends up with a loss of 25 pips.

E. – Since the stop loss was hit within less than two hours from entry, we wait to see if a trade to the opposite direction is triggered. At 10:44 ET the market moves above the inside bar and a long trade is entered at 1.9016 (remember the high of the inside bar was 1.9015).

F. – Four hours later at 14:44 ET we exit our long trade at 1.9063 for a profit of 47 pips.

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We had two trades in this NFP day for a total profit of 22 pips (-25 pips from the first trade and +47 from the second trade).

We saw two NFP examples that provided a nice profit opportunity. I am working on bringing you several other NFP examples at the moment but I am having a bit of trouble with my historical data (FX Trader 4 limits the historical data you may view). As soon as I have the other trade examples I will email everyone in order to download the update. Actually, the NFP issued on the 4th of August produced a very nice profit of close to 80 pips using this strategy. Again, I will bring you the detailed charts as soon as possible.

In conclusion, my NFP trading strategy is conservative in the sense that you do not speculate, you wait. I do not like to speculate as to what the direction of the market will be once NFP is released. I tried that a couple of times and got burned. However, this is my style of trading and as I said earlier there is no right or wrong. In trading there is works and does not work. This works for me. My NFP strategy will not be profitable every single month, no trading strategy is. The best we can do as traders is to be disciplined, follow strict money management rules and use logic in our trading.

All wish you all the best!

P.S. Again, I will get the remaining NFP examples ASAP and will email everyone so you can download the updated report.

All examples in this report are hypothetical.

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