Trading the Non Farm Payroll Report Like a Savage Pip Fiend

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with tons of help from
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Introduction to this eBook

The Non Farm Payroll Report is released (generally) on the first Friday of the month at 8:30am Eastern US Time, and it contains information on the employment situation in the United States.

A strong Non Farm Payroll number reflects a robust, growing economy. A weak number can mean that the economy is slowing down. The United States Federal Reserve considers this report an important influence on their monetary policy decisions. Because of this, the report is a major market mover, not only for currencies but also for stocks and bonds.

The US Bureau of Labor Statistics releases the report. This is the Web link:

http://www.bls.gov/ces/#news

Because this report is so influential, many traders including myself have tried to trade it in the short term for big gains – but this requires getting in on a move just seconds after (or before!) the report is released. The dangers of such trading include:

1. **Broker unreliability**: currency dealers historically have been unresponsive or even offline during the release of this report;
2. **Speed problems**: if you are not able to act super fast, trading right after a report can be next to impossible;
3. **Slippage**: order execution has historically been poor in the moments following the report;
4. **Potential for huge losses**: the report can move a currency pair 100 pips in just a few seconds – and this move can result in huge losses for traders who bet in the wrong direction, set their stops too wide, or who experience the problems mentioned above;
5. **Greed**: trading the NFP in the short term leads to a greedy, short term mindset, one that encourages traders to believe that they can get rich from trading one report in just a few seconds. Over the longer term, greed kills.

For 5 years I have believed that the Non Farm Payroll report can set the tone, and create a trend, for the rest of the month. If this is true, that means that a trader would not have to trade the report in the short term, with all the accompanying risks. Instead, a trader could open up a longer term trade late on Friday or Sunday or Monday, when the trading environment is calmer, and hold onto the trade for days or even weeks. These trades would have the potential for gains of 100 to 1,000 pips.

With this in mind, I have set out, with the help of Jacob the Intern, to discover a way to trade the report for the longer term, for huge amounts of pips. I hope that you will join in on the research.

Additional Resources

1. **Charts:** We have captured screen shots of 4 years' worth of NFP moves. For the GBP/USD, EUR/USD, and USD/JPY, we have provided you with both 60 minute and 15 minute charts that show you:

    a. The move that happened after the report;
    b. The move that happened for at least a week after the report;
    c. The actual numbers from the report.

    These charts are available for free download at:

    http://www.robbooker.com/NFP

2. **This PDF.** You are reading it now. Thanks!

3. **A Discussion Section at ForexFactory.com.** This discussion area is meant to be a place where you can trade ideas about the NFP report, comment on the charts, submit ideas about systems that can be used to trade it long-term, and whatever else. This discussion forum can be accessed from the www.robbooker.com/NFP Web site.

4. **The PowerNFP blog.** This blog is accessible from the www.robbooker.com/NFP Web site and will contain updates about each new NFP report, including ideas for how to trade each new report for the longer term.

5. **USD $1,000 Prize Money.** I am offering USD $1,000 to an individual or team of individuals who can develop and test and offer to share freely on the www.robbooker.com/NFP Web site, using at least 4 years of data, a system for trading the NFP in the longer term. Details about the contest are available on the Web site.

We used Tradestation charts to complete our testing. Tradestation currency charts go back to October 2002 on all the major currency pairs, on time frames as low as 1 minute, which made the testing more accurate.

¡Warning!

This eBook provides:

1. Charts from the last 4 years of NFP reports, for the GBP/USD, USD/JPY, and the EUR/USD;
2. Test results from my own ideas for longer term NFP systems;
3. Ideas on where to go next to develop systems.

This eBook does NOT provide a complete, end-to-end trading system that you can use today. But it gets close to doing that. If you dedicate the time and effort to do your own research, you will likely improve greatly upon what I've done and discover some great ideas for trading the report in the longer term.

Last of all, **you must test your own theories (or these theories) before you do any live trading.** Make sure you prove or disprove your theories about movement in the market, before you risk losing any of your money. It's simply not worth testing expensively, with real money.

Now, let's get on with the information!

The First System: The New York Box

We used the 15 minute charts for the first system we tested.

This is what we did:

1. We drew a horizontal line across the lowest point that the currency pair reached between 12:00am (midnight) and 7:00am, Eastern Time.

2. We drew a horizontal line across the highest point that the currency pair reached between 12:00am (midnight) and 7:00am, Eastern Time.

3. If the currency pair fell and closed below this box (what I call the New York Box), on Friday, then we sold the currency pair. This move below the box could happen on the first candle after the NFP report (the candle that closed at 8:45am EST), or it could happen all the way near the close of trading on Friday.

4. If the currency pair rose and closed above this box (what I call the New York Box), on Friday, then we bought the currency pair. This move above the box could happen on the first candle after the NFP report (the candle that closed at 8:45am EST), or it could happen all the way near the close of trading on Friday.

5. We held the trade for the entire month and marked what the maximum amount of pips gained could be.

6. We placed a stop loss 100 pips beyond the opposite side of the box. If this stop loss was hit, we reversed and traded in the opposite direction. Our new stop loss would be 1 pip beyond the opposite side of the original Non Farm Payroll day box, and for our profit target, we would hold the trade for the entire month and see how many pips we could get.

Let's look at some examples.

Example #1: Taking a Sell Trade

In the example below, you can see blue horizontal lines that "sandwich" the candles. I call these lines the New York Box. This means that between 12:00am (midnight) and 7:00am, Eastern Time, on May 2, 2003, the highest point the EUR/USD reached was 1.1269. The lowest point was 1.1204.

> **This means that the first candle you use to create the box is the candle that starts forming at 12:00 midnight. The last candle you use is the candle that begins forming at 6:45am (because it closes at 7:00am).**

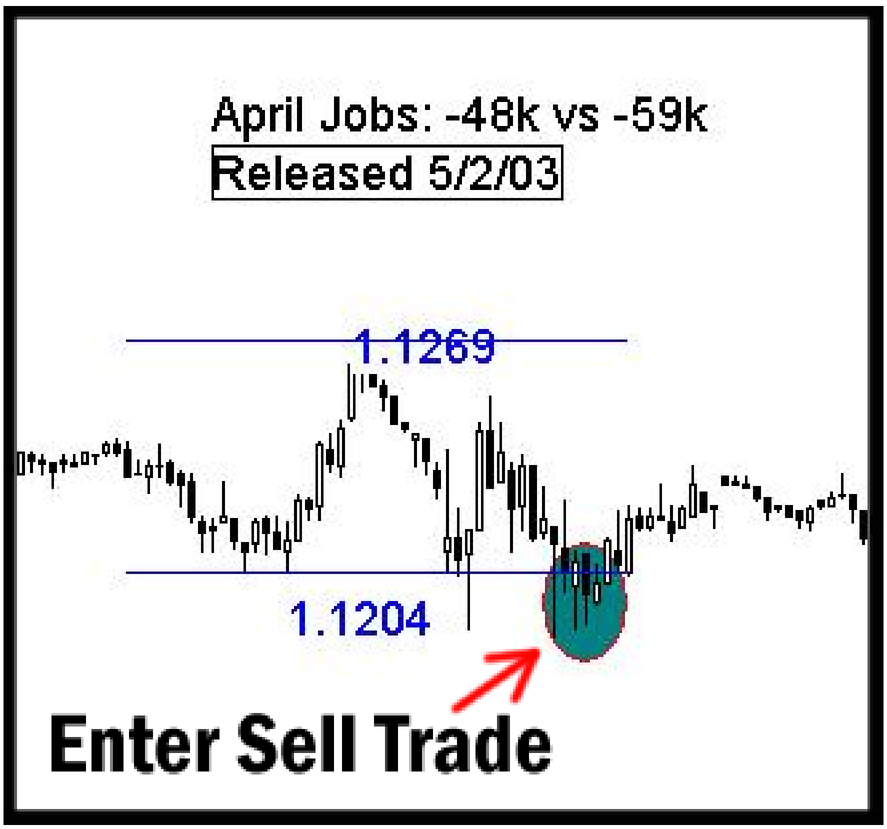

Figure 1. *The currency pair (the EUR/USD) drops below the box on the 15 minute chart, and then closes below the box. This creates a sell trade.*

In Figure 1, the trade entry is approximately 1.1195. The stop loss goes 100 pips beyond the opposite side of the box, or 1.1369.

Example #2: Taking a Buy Trade

In the example below, you can see blue horizontal lines, our New York Box. Between 12:00am (midnight) and 7:00am, Eastern Time, on September 5, 2003 the highest point the GBP/USD reached was 1.5861. The lowest point was 1.5789.

> **If the pair broke outside of the New York Box after 7:00am but BEFORE the Non Farm Payroll report was released, we took the trade anyway.**

Figure 2. *The currency pair (the GBP/USD) rises above the box on the 15 minute chart, and then closes above the box. This creates a buy trade.*

In this example, the stop loss would go at 1.5689, which is 100 pips below the bottom side of the box.

To complete our testing, we then moved forward in time on our charts to see how much profit we would get or, alternatively, if we were stopped out and then had to open a trade in the opposite direction.

Example #3: The Reversal Trade

The image below is not going to be completely legible for you, so you'll need to access either the www.robbooker.com/NFP Web site or the CD in order to get a better view of it.

This is a bigger picture view of the EUR/USD for the Non Farm Payroll trade shown in example #1.

Figure 3. *We included the MACD-Histogram plus the Stochastic Oscillator in our examples so that you would have the option of using those indicators in our testing.*

In the above example, we take a sell trade (position #1) but then it rises up and hits our stop loss (position #2). This means we open a buy trade (position #3) and then set our stop loss to 1 pip below the bottom of the original NFP box (position #4).

We took screen shots of the 15 minute and the 1 hour charts from three currency pairs, for every NFP report move since December 2002. An example of a 1 hour chart is below.

Looking at the 1 Hour Chart

The image below is not going to be completely legible for you, so you'll need to access either the www.robbooker.com/NFP Web site or the CD in order to get a better view of it.

> **This is a bigger picture view of the EUR/USD for the Non Farm Payroll trade shown in example #1, the Non Farm Payroll trade from April 2003.**

Figure 4. *This chart identifies the buy trade we took in Example #3, and follows the trade a few more days into the future.*

The 1 hour charts don't show the entire month – that would make the candles and the prices so small that they would be impossible to read. But they do give us an idea, in nearly every chart, of whether the original trade or reversal would be profitable.

The Second System: The No-Friday System

We used the 1 hour charts to test this system. Here are the details:

1. No trades were taken on NFP Friday;

2. Trade entered after a close above/below the high of NFP Friday, meaning if on a day after Friday, the currency pair broke above the high or below the low from Friday, then we bought or sold;

3. Stops were still 100 pips on the other side of the box;

4. One reversal trade per month was taken, and according to the same rules – when the stop was hit, we reversed;

5. Reversal stop loss was placed 100 pips beyond the opposite side of the box.

6. We held onto the trades for the entire month to determine what the maximum profit on each trade would be.

At the www.robboooker.com/PowerNFP Web site, you'll find a spreadsheet with the results of our testing on this second system.

If you are reading this eBook as part of a CD that you received at a seminar, Expo, then the spreadsheet is on the CD.

Example #1: Buy Trade on Second System

This is an example of a buy trade taken with the second system. You'll notice that it has a really wide stop loss, but that's the way we tested it.

This chart is from the August 01, 2003 Non Farm Payroll release.

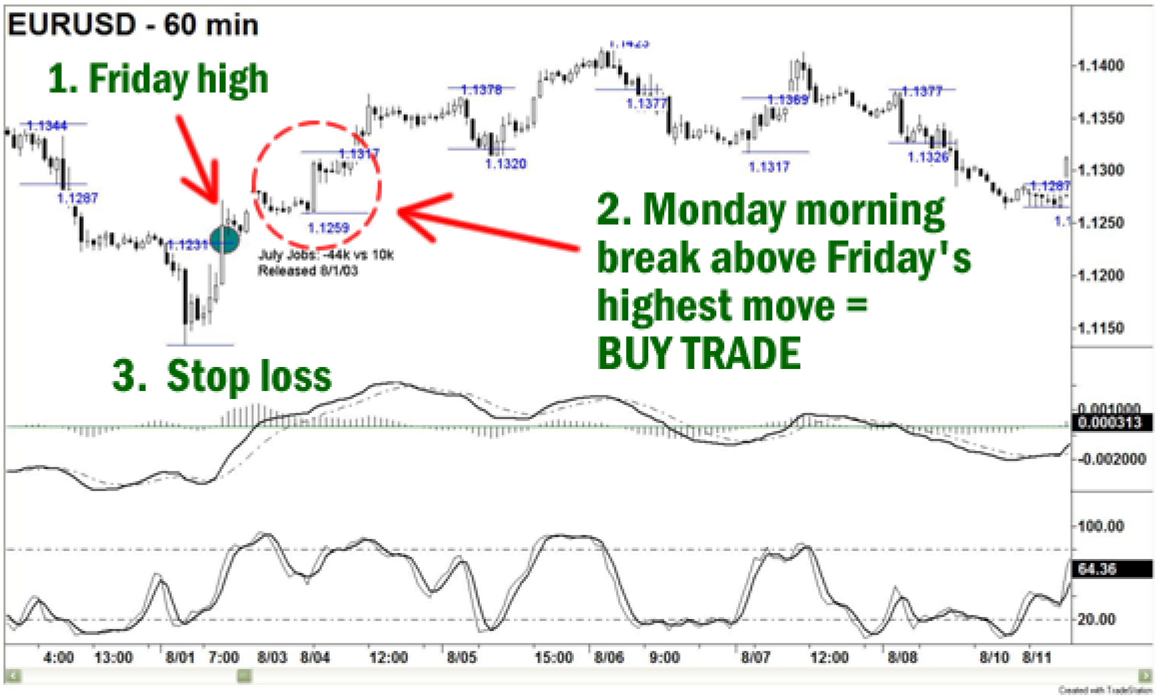

Figure 5. *On Friday, the currency pair jumps up above the New York Box. But we don't trade until Monday, when the currency pair jumps up even higher.*

In position #1, we see the highest point that the currency pair reached on Friday (approximately 1.1265). In position #2, we get a break higher than that level on Monday, and we buy the currency pair. We place a stop loss at position #3, 100 pips lower than the bottom of Friday's box.

Example #2: Sell Trade on Second System

This is an example of a sell trade taken with the second system.

This chart is from the April, 04, 2003 Non Farm Payroll release.

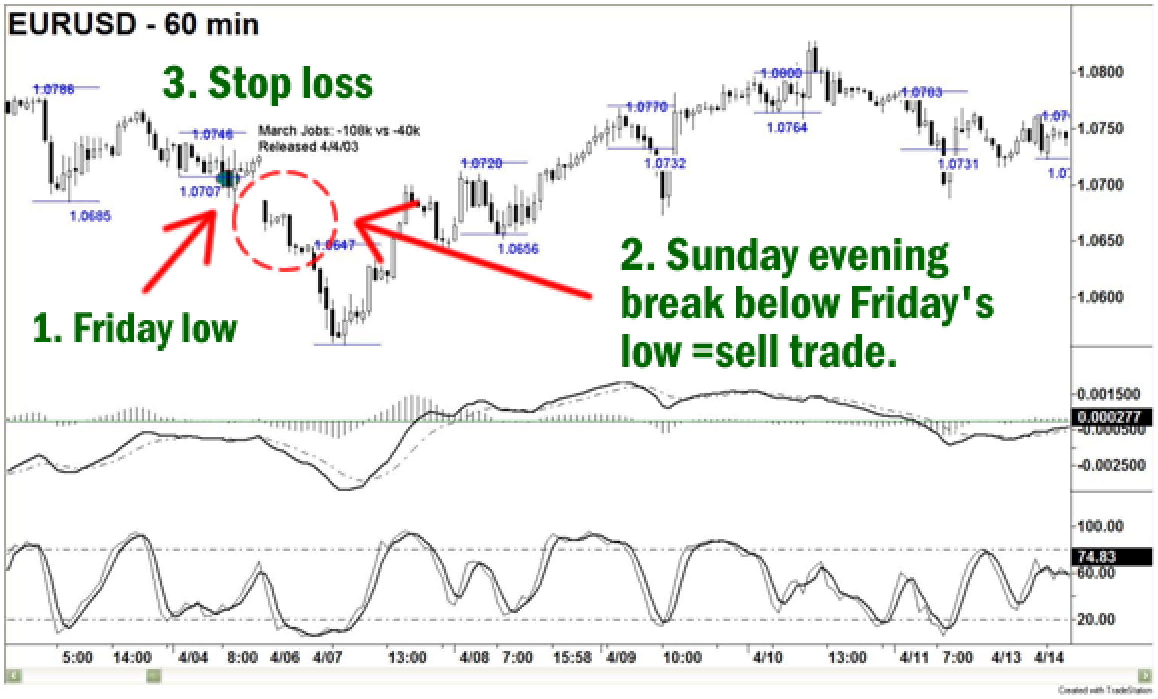

Figure 5. *On Friday, the currency pair falls below the bottom of the New York Box, but we don't trade. We do trade on Sunday when the currency pair falls below the lowest point reached on Friday.*

In position #1, we mark Friday's lowest point (approximately 1.0700). In position #2, we see that on Sunday evening the currency pair broke even lower on a gap move – and this triggers an immediate sell at approximately 1.0685. The stop loss goes at position #3, at 100 pips higher than the top of Friday's New York Box – at 1.0864.

The next section discusses a number of theories that I have about trading the Non Farm Payroll report in the longer term. You might want to use the charts provided in order to test some of these theories. You might want to think up some of your own ideas.

Untested System #1: Using the Expected vs. Actual Numbers

I believe there is a strong correlation between the length/strength of a post-NFP move and the relative shock that comes from getting an unexpected number. For instance, on December 5, 2003, the Non Farm Payroll number released was 57,000 jobs created, versus an expected number of 135,000. Here is what happened for the days afterward:

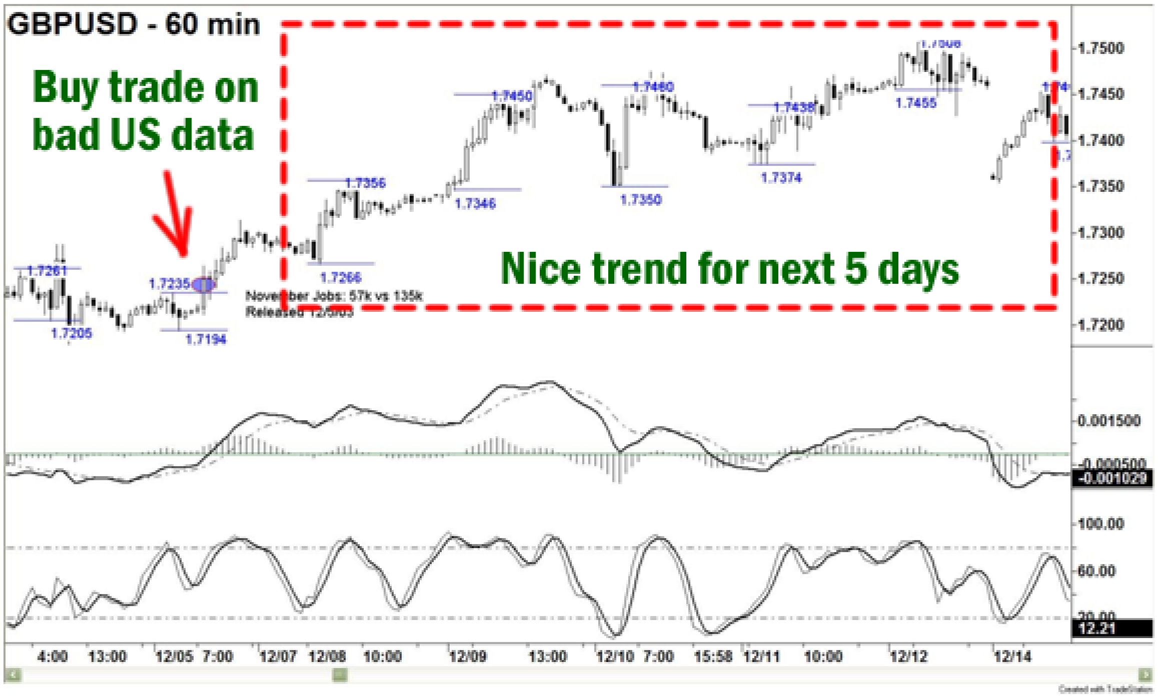

Figure 6. *A big surprise in the NFP number could be the catalyst for a big move for several days (even weeks) afterwards.*

With this theory, a trader would only trade if the actual number released is between 75,000 and 100,000 jobs different than the expected number. The direction of the trade could be based on the actual number (if it is bad for the USD, then sell the USD automatically), or it could be based on a break of the New York Box.

Untested System #2: Using Indicators

We've provided the MACD-Histogram (12, 26,9) and the Slow Stochastic (9,3,3) on each chart, so that we could later glance at two common indicators to see if they would help us plan or take trades.

You might consider:

1. **Looking for Overbought/Oversold conditions before the report is released, or afterwards.** Maybe you could look for a strong move in one direction after the report, and then wait for a pullback / reversal, until the oscillator to show you that there is a "better price" that you can use for an entry.

2. **Look for divergence.** You can look for hidden or regular divergrences, you can use the MACD, Stochastic, RSI, or any other indicator that you like.

3. **Moving average crossovers.** You might consider a crossover of a moving average as a sign that a post-NFP move is going to head in one direction or another.

4. **Elliott Wave:** One idea that I've been interested in is whether Elliott Wave theory can predict the length of a post-NFP move. I am definitely interested in exploring this option myself.

There are a zillion other indicators that you could use.

Conclusion

There was a time when I made the majority of my trades in the short term, and most of those trades occurred directly after an economic report was released. I took big risks and I made a lot of money. I also lost money and experienced a lot of stress. I had arguments with currency dealers about slippage, or about stops and limits. I was anxious on every first Friday.

I want to say this again: trading right after an economic report is released can be very dangerous to your account balance. I did it myself for a long time. I no longer do it at all.

I am not saying that it is IMPOSSIBLE to trade directly after a report is released. I am simply warning you that trading after an economic report carries enormous risks.

Trading for the longer term, and looking for the bigger moves, can be very rewarding, less stressful, easier to manage, and more profitable in the long term. I find that many traders that I work with move from short term trading to longer term trading so that they can get more out of each move and spend less time staring at charts.

Trading in the longer term might not be best for you, but I believe that it is worth considering.

I look forward to hearing your thoughts and trading ideas with you. Keep in touch!