Chapter 4.3

News Analysis

NEWS ANALYSIS

Fundamentals move currency pairs, and news moves fundamentals.

News of an interest-rate hike or news of a sub-prime meltdown can cause a currency pair to change directions in an instant. The fundamentals that were true just 10 seconds earlier can become completely meaningless in the face of new fundamental information. You, as a forex trader, need to be able to react to big news when it is released.

You may be worried that you won't be able to be in front of your computer to react to all of the market news that may come out during a day. After all, the forex market is a 24-hour marketplace. Luckily, as a retail forex trader, you don't need to monitor the news wires quite this actively. If you use appropriate risk-management techniques, you have the ability to react more nimbly than large, institutional investors while protecting yourself from extreme downside risk.

In this section, you will learn about the following characteristics of news in the forex market and how you can profitably utilize them:

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MOST ECONOMIC NEWS IS SCHEDULED

Most of the economic news that is going to be important to you as a forex trader is scheduled months in advance. For instance, you know a year in advance when the U.S. Federal Open Market Committee (FOMC) is going to be meeting to discuss interest rate changes. This gives you plenty of time to research the announcement and position your portfolio accordingly.

Saxo Bank provides an up-to-the-minute economic calendar so you can know exactly what news is scheduled to be released today, tomorrow and into the future.

Thursday, 29-Nov-2007

Time	Country	Event	Period	Consensus	Prior
7:00 AM		ILO Unemployment Rate	OCT	- -	- -
8:30 AM		GDP s.a. (QoQ)	3Q	- -	- -
8:30 AM		GDP w.d.a. (YoY)	3Q	- -	- -
8:55 AM		Unemployment Change (000's)	NOV	- -	- -
8:55 AM		Unemployment Rate (s.a)	NOV	- -	- -
9:00 AM		PPI (MoM)	OCT	- -	- -
9:00 AM		PPI (YoY)	OCT	- -	- -
9:30 AM		M4 Money Supply (MoM)	OCT F	- -	- -
9:30 AM		M4 Money Supply (YoY)	OCT F	- -	- -
9:30 AM		M4 Sterling Lending (BP)	OCT F	- -	- -
12:00 PM		NBNZ Business Confidence	OCT	- -	- -
1:30 PM		GDP Price Index	2Q P	- -	- -
1:30 PM		GDP Annualized	3Q P	- -	- -
1:30 PM		Personal Consumption	2Q P	- -	- -
1:30 PM		Initial Jobless Claims	24-Nov	- -	- -
3:00 PM		New Home Sales	OCT	- -	- -
3:00 PM		Help Wanted Index	OCT	- -	- -
3:00 PM		New Home Sales MoM	OCT	- -	- -
3:30 PM		EIA Natural Gas Storage Change	23-Nov	- -	- -

A quick glance at the economic calendar lets you know about important upcoming events that have the potential to change or accelerate the movement of the currency pairs you are watching, such as German unemployment data, U.K. money supply and U.S. gross domestic product (GDP).

THE EXPECTED IS ALREADY PRICED IN

Investment analysts, economists and other market participants are constantly analyzing upcoming economic announcements, trying to determine ahead of time what the news is going to be. While no two analysts will arrive at exactly the same conclusion, if you look across the various estimates, you can determine what the average estimate is. This average estimate is also known as the "consensus estimate."

Knowing what this consensus estimate is will help you take advantage of price movements once the economic announcement is released because the consensus estimate will already be "priced in" to the value of the currency pair. Here's how it works.

Once investors complete their analysis, they start placing their trades to take advantage of where they believe currencies are going to move in the future. They don't wait until the announcement comes out. They want to be ahead of the market. So by the time an economic announcement is released, most of the major market participants have already placed their trades.

If an economic announcement is released, and the number matches the consensus estimate, the currency pair will most likely not move very much. Since most of the big traders have already placed their trades, there are no new traders to jump in and move the currency pair. If, however, the actual number from the economic announcement is higher or lower than the consensus estimate, the price of the currency pair will have to adjust either up or down to factor in the new economic information.

During this period of time when market participants are scrambling to factor in the new information, you have an excellent opportunity to take advantage of the price movement. You can do so in one of the following three ways:

1	You can enter your trade immediately following the economic news announcement
2	You can wait for the market to process the new information and enter your trade once a new trend has been established
3	You can set two entry orders, one above the current price of the currency pair and one below the current price of the currency pair, just before the economic announcement is released

Entering Immediately Following an Economic Announcement

Entering immediately following an economic announcement is typically the most difficult way to trade the news. Currency prices tend to adjust sharply when the result of an economic announcement is not what investors had anticipated. Depending on how quickly you get the economic news and how quickly you can enter your trade order, you may not be able to get into your trade before the price has already taken off.

Traders who try to jump into trades after the announcement has been released have to be prepared to have their trades filled at a higher price if they are buying the currency pair, or at a lower price if they are selling the currency pair. The price movement between the time when you enter your trade and when you are trading is actually filled is called "slippage." If you are comfortable with experiencing slippage in your trading account, you can explore this method of treating the news. If you're not comfortable with the experiencing slippage in your trading account, you should choose one of the other two methods for trading the news.

Entering Once a New Trend is Established

Most forex traders who trade the news choose to enter their trades once a new trend has been established. This is typically the easiest way to trade the news. Oftentimes when an economic announcement is released, the price of the currency pair will fluctuate back and forth as investors try to determine which way the currency pair will move in the future. Once these investors have determined which direction they believe the currency pair is going to go, the currency pair generally develops a strong trend moving in that direction.

Forex traders who wait for this new trend to appear avoid the noise that is generated as the currency pair fluctuates back and forth immediately after an economic announcement is released. Doing so gives them an advantage over traders who enter their trades too quickly only to be knocked out as the price reverses direction and hits their stop losses.

You'll typically know which direction a currency pair is going to move within 2 to 5 minutes of when the economic announcement is released. This gives the market plenty of time to shake out those investors who are trying to buck the new trend. Because this shakeout can happen so quickly, you will typically want to use a shorter-term chart as you watch the price action after an economic announcement. Consider using a 1- or 2-minute chart.

Using Entry Orders Before the Economic Announcement

Placing entry orders before an economic announcement is released is the most profitable way to trade if the news when you are right and the currency pair moves the direction you want it to. By placing your entry orders before the currency pair moves in one direction or the other, you assure yourself of entering the trade at the price which you specify. In other words, you don't have to worry about slippage when you're using entry orders. As soon as the price of the currency pair reaches your entry price, your trade will be placed.

This method is also one of the riskiest ways to trade the news when the market whips back and forth immediately following the economic announcement. For instance, if the price of the currency pair moves higher immediately following the economic announcement and then turns around and moves lower once the majority of market participants realize the economic announcement was bearish for the currency pair, you will be knocked into the trade once your entry order is hit and then knocked right back out of it if the currency pair turns around and hits your second entry order.

One way you can prevent this from happening is by deleting your second entry order once the first entry order is hit. However, you will want to place a stop-loss on your trading after you hit your first entry order.


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